

EXHIBIT J. W. C. J-1.

NORFOLK AND WESTERN RAILWAY CO.

vs.

W. G. CONLEY, Attorney General of West Virginia, et al.

West Virginia 2-cent Passenger Rate Case.

Summary of Results Shown in Exhibits J. W. C. B-2, C-2, and D-2.

	1907.			1908.			1909.		
	Revenue from pass 'g'ts only.	Including by-products.		Revenue from pass 'g'ts only.	Including by-products.		Revenue from pass 'g'ts only.	Including by-products.	
Gross Passenger Revenue.....	362,997.74	441,311.10		289,943.22	365,022.35		281,864.50	355,505.10	
Operating Expenses and Taxes.....	311,001.83	376,885.38		275,519.79	346,948.19		283,416.62	357,467.12	
Percentage of Ordinary Operating Ex- penses and Taxes.....	85.68%	85.40%		95%	95%				
Net Earnings from Operation.....	51,995.91	64,425.72		14,423.43	18,074.16		D. 1,552.12	D. 1,962.02	
Add Miscellaneous Income.....		557.21			280.46			1,343.91	
Total Income applicable to Capital.	51,995.91	64,982.93		14,423.43	18,354.62			D. 616.11	
Proportion of Bond and Stock Valuation.	1,952,680.00	2,370,180.00		1,744,976.00	2,192,406.00		1,644,415.00	2,074,774.00	
Rate of Return.....	2.66%	2.78%		.81%	.84%				
Proportion of Tax Assessment.....	1,391,902.31	1,689,502.81		1,391,902.21	1,519,000.00		1,391,902.21	1,465,600.00	
Rate of Return.....	3.73%	3.84%		1.04%	1.19%				

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1/31/13

Adjustment of Intra-State Passenger and Freight Expenses on Basis of West Virginia Engine Mileage.

Year Ending June 30th, 1909.

	Passenger.	Freight.	Total.
Total Operating Expenses in West Virginia.....	763,604.24	4,157,764.26	4,921,368.50
\$4,921,368.50 × 35% × 20%	344,495.80	1,377,983.18	1,722,478.98
	419,108.44	2,779,781.08	3,198,889.52
\$1,722,478.98 × 18.73%	323,481.55	1,398,997.43	1,722,478.98
	742,589.99	4,178,778.51	4,921,368.50
\$742,589.99 × 45.19%	335,576.42		
\$742,589.99 × 54.81%	407,013.57		
\$4,178,778.51 × 2.36% Intra.....		98,619.17	
\$4,178,778.51 × 97.64% Inter		4,080,159.34	

Intra-State.

	Passenger.	Freight.	Total.
Intra-state Passenger Expenses originally charged.....	345,053.25	97,919.42	442,972.67
Should be.....	335,576.42	98,619.17	434,195.59
Amount overcharged.....	9,476.83		9,777.08
“ undercharged.....		699.75	
West Va. Intra-state Earnings.....	355,505.10	164,239.21	519,744.31
Less adjusted “ Expenses.....	335,576.42	98,619.17	434,195.59
Net Earnings.....	19,928.68	65,620.04	85,548.72
Less Taxes.....	12,413.87	5,746.16	18,160.03
	7,514.81	59,873.88	67,388.69
Add Miscellaneous Income.....	1,345.91	2,310.12	3,656.03
Net Income.....	8,860.72	62,184.00	71,044.72
\$8,860.72			
= 0.6% on Capital.			
\$1,465.600			

Operating Expenses, Intra-state.....	335,576.42	98,619.17	434,195.59
Taxes, ".....	12,413.87	5,746.16	18,160.03
	<u>347,990.29</u>	<u>104,365.33</u>	<u>452,355.62</u>

Passenger: $\frac{\$347,990.29}{\$355,505.10} = 97.88\%$

Freight: $\frac{\$104,365.33}{\$164,239.21} = 63.54\%$

Passenger and Freight: $\frac{\$452,355.62}{\$519,744.51} = 87.03\%$

Add for Interest, Dividends, etc..... 23.013%
110.043%

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 1/31/13

254 "COMPLAINANT'S EXHIBIT L-1."

Norfolk & Western Railway Co.

West Virginia Two-cent Passenger Rate Case.

Rebuttal of Hillman Exhibit # 7.

Hillman Exhibit # 7 purports to show cost earning \$53,653.12 of gross revenue on intrastate passenger and freight traffic in West Virginia in May, 1910.

Mr. Hillman, in Exhibit # 7, shows intrastate passenger and freight revenue in West Virginia for May, 1910:

Passenger revenue, Pocahontas Division....	\$17,672.18
Other revenue, ".....	4,654.85
Passenger revenue, Kenova Division.....	9,203.59
Other revenue, ".....	2,514.90
Intrastate freight, State of West Va.....	19,365.00
Other operating revenue, Pocahontas and Kenova Divisions	242.60

Total intrastate earnings..... \$53,653.12

Passenger operating expenses for May, 1910,
as per Hillman Exhibit # 3..... \$32,116.66

Freight operating expenses is 20% of revenue
as per exhibit # 5, in which he explains
in his testimony on page 60 of the record,
that the cost of moving intrastate freight
is 5.8572 mills per ton per mile, and as
intra-state revenue per ton per mile on the
Pocahontas Division is 2.9342 cents, the
cost of earning 2.9342 cents being 5.8572
mills, or 20% ;

Therefore, 20% of intrastate freight revenue,
\$19,365.00 \times 20% = expenses of intra-
state freight traffic..... 3,873.00

Taxes 2,616.66

Total expenses \$38,606.12

Percentage of cost, 71.9553%.

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The cost of earning the intrastate freight
traffic for May, 1910, as shown by Mr.
Hillman \$3,873.00

Is strongly objected to, as explained in criti-
cism of Hillman Exhibit # 5?

In the statement of passenger revenue as
shown in this exhibit appears,—

"Other Pass'r Revenue" Poca. Div. intra-
state, May..... \$4,654.85

"Other pass'r revenue," Kenova Div. intra-
state, May..... 2,514.90

Which Mr. Hillman obtains by applying to
the total "other passenger revenue" the
percentages based upon expenses as criti-
cised in Exhibit # 6.

Pocahontas District, other items of passenger
train revenue, \$8,794.79 \times 52.9294%... \$4,654.85

It is claimed this amount of \$8,794.79
should be divided between intra- and inter-
state on basis of passenger revenue from
intra- and interstate; thus on the Pocahontas
District for May, 1910:

Intrastate passenger revenue (passengers
only)..... \$17,672.18—46.90%

Total passenger revenue, (passengers only). 37,677.46

Therefore the "other items of passenger train revenue,"

\$8,794.79 \times 46.904% = other items of passenger
train revenue intrastate..... \$4,125.12

Similarly on the Kenova District, May, 1910:
 Intrastate passenger revenue (passengers only) \$9,203.59—54.003%
 Total passenger revenue, (passengers only). 17,042.64

Therefore the total "other items of passenger train revenue," May, 1910, Kenova District, (as shown in criticism of Hillman Exhibit # 6), $\$4,274.54 \times 54.0003\% =$ intrastate other items of passenger revenue \$2,308.38

256 With these corrections made, Hillman Exhibit # 7 would read, May, 1910:

Intrastate passenger revenue, Poca. Dis't. . . .	\$17,672.18
Other passenger revenue, " "	4,125.10
Intrastate passenger revenue, Kenova Dis't. . .	9,203.59
Other passenger revenue, " "	2,308.38
Intrastate freight revenue, West Virginia, May, 1910	19,365.00
Other operating revenue, Pocahontas and Kenova Districts	242.60

Total intrastate earnings, May, 1910. \$52,916.85

Passenger operating expenses for May, 1910, Pocahontas District, as per Hillman Exhibit # 3.	32,116.66
Freight operating expenses as worked out by Mr. Hillman in Exhibits # 5 and # 7.	3,873.00
Taxes	2,616.66
	<u>\$38,606.32</u>

Percentage of cost, 72.957%.

On page 61 of record Mr. Hillman refers to examination of Fourteenth annual report of the Norfolk & Western Railway, for June, 1910, and shows that interest, rents, hire of equipment, rents of tracks, yards and terminals, and dividends at 5% on common stock and 4% on preferred, and excluding taxes considered above, would consume of the gross operating revenue. 23.013%

95.970%

And on page 135 of record, states that if 6% had been allowed on common stock there would be added. 1.877%

97.847%

Taking a period of five years, 1906-1910 inclusive, the proportion of gross operating revenue necessary to allow 6% on common stock and pay the interest charges, rents, etc., specified above, would be. 28.800%
 Which, added to the revised percentage above. 72.957%

Makes a total of. 101.757%

With no provisions for expenditures for Additions and Betterments.

Sheet # 3.

On sheet # 1 of this criticism of Hillman Exhibit # 7, is shown the original percentage of operating revenue consumed by operating expenses on passenger and freight traffic in West Virginia:

Total intrastate expenses and taxes as originally figured by Mr. Hillman.....	\$38,606.32	
Total intrastate earnings.....	53,653.12	= 71.9553%

On sheet # 2 is shown what this percentage would be if the method is adopted of distributing the item of "Other passenger train earnings" on basis of revenue from intra- and interstate passengers, and using Mr. Hillman's cost of handling intrastate freight traffic under intrastate conditions as figured in his Exhibit # 5:

Total intrastate expenses and taxes.....	\$38,606.32	
Total intrastate earnings.....	52,916.85	= 72.957%

Under the revision of Hillman Exhibit # 5 as revised by J. W. C. the expanded freight expenses show a cost per ton per mile on intrastate freight of 9.4172 mills.

And applying this to the West Virginia intrastate tons one mile for May, 1910: 650968×9.4172 mills, we have as the cost.....	\$6,215.05
Instead of the amount as shown by Mr. Hillman of.....	\$3,873.00
Adding the intrastate passenger expenses as per Hillman Exhibit # 3.....	32,116.66
Taxes	2,616.66

Total operating expenses and taxes on intrastate traffic, passenger and freight.....	\$40,948.37
258 Gross earnings intrastate, passenger and freight..	\$52,916.85
	\$40,948.37

Therefore, $\frac{40,948.37}{52,916.85}$ = percentage of operating expenses and taxes.....	77.382%
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On page 61 of record of March, 1912, depositions, Mr. Hillman refers to the percentage of gross revenues for year ending 6/30/1910 consumed by interest, rents, hire of equipment, rents of tracks, yards and terminals, and dividends at 4% on preferred and 5% on common (and excluding taxes previously considered).....	23.013%
	100.395%

And on page 136 of record, states that if 6% dividend had been allowed on common stock, there should be added	1.877%
	102.272%

Which means that the intrastate passenger and freight traffic, to earn its operating expenses, taxes and its share of the interest on bonds and stock, would cost \$1.02272 to earn \$1.00, and with no no provision for that class of Additions and Betterments which should be provided from income rather than be capitalized.

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DEFENDANTS' J. W. C. EXHIBIT No. 1.

In the Circuit Court of Kanawha County, State of West Virginia.
In Equity.

NORFOLK & WESTERN RAILWAY COMPANY, Plaintiff,

vs.

W. G. CONLEY, Attorney General of the State of West Virginia, et al.,
Defendants.

Question 25, Page 61, Transcript of Evidence.

Question by Attorney General CONLEY:

"Will you make up and file a statement as part of your deposition showing the number of Freight Engines used, the number of Miles made in aggregate and the cost of operating same in West Virginia for each year ending June 30th, 1907, 1908, 1909 and 1910, and also a separate statement showing the same as to Passenger Engines?"

Answer:

It is not practicable to give the precise number of Engines used in West Virginia, as separate engines are used on each Operating Division, which in turn operate in more than one State. A statement is shown below which shows:

(1) Proportion of Total Cost of Operating Engines on all such Divisions as are partly located in West Virginia, for the years ending June 30th, 1907-8-9-10, for Freight Engines,

" Passenger "

(2) Freight Engine Mileage in West Virginia for 1907-8-9-10.

(3) Passenger " " " " " " " "

(4) Average cost of Freight Engine per Mile run in West Virginia.

(5) " " " Passenger " " " " " " "

(6) Freight Earnings per Mile run of Freight Engines.

(7) Passenger " " " " " Passenger "

J. W. C. EXHIBIT #1, PAGE 2.

Statement of Cost of Operating Engines in West Virginia for Fiscal Years.

	1906-7.	1907-8.	1908-9.	1909-10.
Freight.				
Engine Repairs.....	\$366,506.67	\$292,149.23	\$253,271.90	\$401,888.34
Road Enginemen.....	503,839.81	494,020.69	385,174.19	575,414.24
Eng. House Exp. Road.....	75,173.49	83,606.58	81,651.39	104,535.01
Road Loco. Fuel.....	326,874.63	355,753.33	366,284.54	552,119.53
“ “ Water.....	32,552.70	29,862.78	28,245.66	34,133.90
“ “ Lubricants.....	19,806.39	8,695.68	8,372.42	11,625.80
“ “ Other Supplies.....	25,693.47	15,049.67	10,678.69	15,788.15
Total.....	1,350,447.16	1,279,137.96	1,133,678.79	1,695,504.97
Passenger.				
Engine Repairs.....	\$64,191.47	\$53,102.17	\$51,671.93	\$72,422.69
Road Enginemen.....	59,174.38	64,641.39	60,407.35	62,153.30
Eng. House Exp. Road.....	18,790.22	20,797.55	20,181.75	26,062.53
Road Loco. Fuel.....	30,413.16	35,499.16	34,993.02	37,649.96
“ “ Water.....	7,944.71	7,292.09	7,249.50	8,555.97
“ “ Lubricants.....	3,020.62	1,599.50	1,708.59	2,268.29
“ “ Other Supplies.....	3,061.13	2,435.20	1,891.58	2,189.27
Total.....	186,595.69	185,367.06	178,103.72	211,302.01
Freight Engine Mileage.....	3,482,796	3,224,272	3,311,499	4,472,028
Ave. Cost of Frt. Eng. per Mile run.....	\$.388	\$.3967	\$.3424	\$.3791
Passenger Engine Mileage.....	722,253	815,251	791,508	822,691
Ave. Cost of Pass. Eng. Per Mile run.....	\$.258	\$.2273	\$.2250	\$.2567
Ave. Earnings per Engine Mile run:				
Frt. Earnings per Frt. Eng. Mile run.....	\$2.04	\$2.03	\$2.16	\$2.03
Pass. Earnings per Pass. Eng. Mile run.....	\$1.38	\$1.07	\$.994	\$1.10

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J. W. C. EXHIBIT #2.

In the Circuit Court of Kanawha County, State of West Virginia.
In Equity.

NORFOLK & WESTERN RAILWAY COMPANY, Plaintiff,

vs.

W. G. CONLEY, Attorney General of the State of West Virginia, et
al., Defendants.

Question by Attorney General CONLEY:

"In the direct examination you gave (see page 40 of transcript of evidence) as I now recall, the gross revenues per Mile or Road for Intra-state West Virginia Passenger business for the years 1907, 1908 and 1909: Will you give the Gross Passenger Revenues per Mile for these years including the year 1910, including with the Intra-state Passenger business all other sources of Passenger Revenue, as well as the Inter-state Passenger Revenue to which West Virginia is entitled?"

Answer:

1. The inquiry made on direct examination (see page 40 of evidence) referred to Passenger Revenue per Mile of Road in West Virginia and Passenger Revenue per Mile of Road outside of West Virginia, both Intra- and Inter-state:

2. Passenger Revenue as defined in Classification of Operating Revenues prescribed by the Interstate Commerce Commission, excludes Excess Baggage, U. S. Mail, Express, Parcel Room Receipts, Storage of Baggage, Station and Train Privileges:

3. The inquiry as propounded on direct examination was confined to the Passenger Revenue as defined in paragraph 2 of this exhibit, and was as follows:—

	1907.	1908.	1909.
N. & W. Ry. System outside of West Virginia	\$2,340	\$2,228	\$2,028
West Virginia	1,889	1,554	1,376
Excess Passenger Revenue per Mile of Road outside of West Virginia over the Passenger Revenue in West Virginia	451	674	652

Adding to the Passenger Revenue in West Virginia, the revenue from Excess Baggage, U. S. Mail, Parcel Room receipts, Station and Train Privileges, Sundry items of Miscellaneous Passenger Revenue; then the results would be summarized as follows:—

Passenger Earnings Per Mile of Road in West Virginia, Both Intra-State and Inter-State.

	1907.	1908.	1909.	1910.
Gross Passenger Revenue.....	\$816,932.73	\$691,187.43	\$623,804.31	\$726,279.19
Add for Excess Baggage, U. S. Mail Express, Station and Train Privileges.....	176,381.44	178,972.89	162,921.69	179,205.37
Total	\$993,314.17	\$870,160.32	\$786,726.00	\$905,484.56
Miles of Road in West Virginia.....	432.65	444.69	453.25	453.32
Passenger Earnings per Mile of Road....	\$2,296	\$1,957	\$1,736	\$1,997
As compared with Passenger Earnings per Mile of Road outside of West Virginia..	2,754	2,663	2,459	2,604
Excess of Passenger Earnings per Mile of Road outside of West Virginia.....	\$458	\$706	\$723	\$607

Exhibit J. W. C. No. 3

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GENERAL INCOME ACCOUNT

For the Year Ending June 30th, 1907, and Comparison with Previous Year

EARNINGS.	1907.	1907.	1906.	INCREASE OR DECREASE.
From passengers	\$4,163,119 22		\$3,598,557 60	I. \$564,561 62
" freight	26,000,945 81		24,111,800 91	I. 1,889,144 90
" mail	287,981 71		264,576 25	I. 3,405 46
" express	468,576 41		364,579 10	I. 103,997 31
" miscellaneous	263,758 01		148,251 77	I. 115,506 24
TOTAL EARNINGS		\$31,164,381 16	\$28,487,765 63	I. \$2,676,615 53
EXPENSES.				
Maintenance of way and structures	\$3,895,548 39		\$3,439,797 14	I. \$455,751 25
Maintenance of equipment	5,239,898 88		4,749,832 42	I. 490,066 46
Conducting transportation	9,793,901 68		8,355,373 19	I. 1,438,528 49
General expenses	585,186 69		519,621 07	I. 65,565 62
OPERATING EXPENSES		\$19,514,535 64	\$17,064,623 82	I. \$2,449,911 82
NET EARNINGS FROM OPERATIONS		\$11,649,845 52	\$11,423,141 81	I. \$226,703 71
To which add:—				
Interest, General Account	\$35,867 07		113,090 59	D. 77,223 52
Rents	53,080 48		52,254 08	I. 826 40
		88,947 55	\$165,344 67	D. \$76,397 12
TOTAL INCOME		\$11,738,793 07	\$11,588,486 48	I. \$150,306 59
From which deduct:—				
Interest on funded debt	\$3,222,807 33		3,069,146 66	I. 153,660 67
Interest on Equipment Trust obligations	492,888 89		316,641 67	I. 176,247 22
Taxes	996,000 00		735,000 00	I. 261,000 00
Rents of tracks, yards, terminals and other property	26,777 83		15,323 39	I. 11,454 44
		\$4,738,474 05	\$4,136,111 72	I. \$602,362 33
NET INCOME		\$7,000,319 02	\$7,452,374 76	D. \$452,055 74
From this net income for the year ending June 30th, 1907				\$7,000,319 02
The following amounts have been deducted:—				
Payment to Pocahontas Coal and Coke Company on account of deficiency of interest on Norfolk and Western-Pocahontas Joint Bonds			\$218,000 00	
Rest houses for trainmen, and minor charges to income			47,211 33	
Dividends on adjustment preferred shares:				
No. 19. 2 per cent., August 17th, 1906	\$459,822 00			
No. 20. 2 per cent., February 15th, 1907	459,822 00			
			919,644 00	
Appropriations for Betterments to Property			250,000 00	
Appropriations for Acquiring Additional Equipment			996,652 06	
				2,431,507 39
Amount carried to Profit and Loss for the year				\$4,568,811 63
Amount to credit of Profit and Loss, June 30th, 1906			3,800,853 94	
Dividends on common shares:				
No. 12. 2½ per cent., December 21st, 1906	\$1,611,730 00			
No. 13. 2½ per cent., June 19th, 1907	1,611,730 00			
			3,223,460 00	
				577,393 94
Discount and commission on securities sold				\$5,146,205 57
				673,800 00
Balance to credit of Profit and Loss, June 30th, 1907				\$4,472,405 57

11—600

263 The gross earnings were \$16,612, and the net earnings \$6,210 per mile of road operated.

The operating expenses were 52.62 per cent. of the gross earnings as against 59.90 per cent. in the preceding year.

Taxes were 3.20 per cent. of the gross earnings.

Capital Stock.

At the annual and special meeting of the stockholders, held October 11th, 1906, the stockholders increased the common stock of the Company by the sum of \$34,000,000, to an aggregate of \$100,000,000. None of this additional stock has been issued, but it is reserved to enable the holders of outstanding convertible bonds to convert such bonds into the common stock of the Company. The capital stock outstanding consists of—

660,000 shares of common stock.....	\$66,000,000 00
230,000 shares of adjustment preferred stock.....	23,000,000 00
Total.....	<hr/> \$89,000,000 00

of which there was in the treasury of the Company at the close of the fiscal year, 89 shares of adjustment preferred stock and 15,308 shares of common stock.

CONSTRUCTION, EQUIPMENT AND
BETTERMENTS.

The expenditures for Construction and Betterments during the year are summarized in the following table, the aggregate expenditure being \$6,110,343.64, of which \$3,916,221.31 was charged to Property Account, and the remainder, \$2,194,122.33, to Betterment Fund.

	Charged against Property Acct.	Charged against Betterment Fund.	Total.
Station buildings and shops . . .	\$540,869 64	\$145,256 60	\$686,126 24
Coal, water, and sand supply plants	34,070 57	43,805 45	77,876 02
Dry Fork Branch	65,238 54	. . . . .	65,238 54
Other branches and extensions . .	11,448 67	22,011 99	33,460 66
Second track (including tunnel- ing)	1,760,106 20	1,380,047 54	3,140,153 74
Fencing . . . . .	. . . . .	20,820 16	20,820 16
Ballasting . . . . .	. . . . .	4,114 77	4,114 77
Lining tunnels . . . . .	. . . . .	35,115 38	35,115 38
Sidings, passing sidings, and yards	1,336,019 17	23,768 65	1,359,787 82
Replacing bridges and trestles . .	. . . . .	460,008 34	460,008 34
Improving alignment and grade, . .	. . . . .	16,470 46	16,470 46
Interlocking and signal appa- ratus, etc.	162,118 93	42,702 99	204,821 92
Miscellaneous	6,349 59	. . . . .	6,349 59
Total	\$3,916,221 31	\$2,194,122 33	\$6,110,343 64
Cost of construction Concord and Forest Branches . . . . .	. . . . .	. . . . .	1,381,142 76

Advances for construction purposes were made as follows:—

Pocahontas and Western Railroad	\$210,613 22
Guyandot and Tug River Railroad	145,161 97
West Virginia Southwestern Railway	2,896 99
Big Stony Railway	43,793 92
Interior and West Virginia Railroad	34,100 74
% Virginia and Potts	
Creek Railroad	20,899 36
Blackstone and Lunenburg Railroad	35,203 32
	<hr/>
	\$492,669 52

In pursuance of your Company's policy of making yearly appropriations from Surplus Income to meet the cost of extraordinary replacements, renewals and betterments to your property, the sum of \$250,000 has been so appropriated and credited to the

265 Betterment Fund. Following is a statement of the Betterment Fund for the fiscal year.

The Betterment Fund created out of Surplus Income had to its credit June 30th, 1906.....	\$3,148,771 00
There was credited to this Fund out of the Surplus Income of the year ending June 30th, 1907....	250,000 00
	<hr/>
	\$3,398,771 00
Charged against Betterment Fund during the year..	2,194,122 33
	<hr/>
Balance to credit of Fund, June 30th, 1907.....	\$1,204,648 67
	<hr/>

The Fund for Acquiring Additional Equipment was closed as of June 30th, 1907, and is replaced from that date with the Equipment Replacement Accounts prescribed by the Interstate Commerce Commission. Through this Fund the Company charged off during the year \$241,906.27 on account of the cost of new equipment, and \$1,500,000 of matured Equipment Trust principal.

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Traffic.

As compared with the preceding year, passengers carried increased 445,237, or 11.7 per cent.; the average haul of passengers increased 0.73 miles.

The total passenger revenue increased \$564,561.62, or 15.7 per cent.; the average rate passenger per mile increased 0.040 cents.

Tons of freight carried increased 916,684 tons, or 4.8 per cent.; the average haul of freight increased 0.13 miles.

The total freight revenue increased \$1,889,144.90, or 7.8 per cent.; the average rate per ton per mile increased 0.014 cents.

The freight train mileage increased 582,071 miles, or 6.7 per cent.; the average tons per train mile decreased 10 tons, or 1.7 per cent.

The total shipments were 9,400,432 tons, a decrease of 110,007 tons, or 1.2 per cent.

The lumber shipments were 1,968,739 tons, an increase of 260,238 tons, or 15.2 per cent.

The shipments of other low-class commodities connected with the iron and steel industries were as follows:—

Coke shipments were 2,413,803 tons, an increase of 48,942 tons, or 2.1 per cent.

Ore shipments were 968,039 tons, an increase of 93,032 tons, or 10.6 per cent.

Pig and bloom iron shipments were 581,227 tons, a decrease of 2,726 tons, or 0.5 per cent.

Exhibit J. N. C. No 4.

7

GENERAL INCOME ACCOUNT

For the Year Ending June 30th, 1908, and Comparison with Previous Year.

	1908.	1908.	1907.	Increase or Decrease.
EARNINGS.				
From passengers	\$3,977,482 05		\$4,163,119 22	D. \$185,637 17
" freight	23,990,629 53		26,000,945 81	D. 2,010,316 28
" mail	290,577 85		267,981 71	I. 22,596 14
" express	449,324 38		466,576 41	D. 19,252 05
" miscellaneous	254,203 38		263,758 01	D. 9,554 65
TOTAL EARNINGS		\$28,962,217 15	\$31,164,381 16	D. \$2,202,164 01
EXPENSES.				
Maintenance of way and structures	\$3,458,087 99		\$3,895,548 39	D. \$437,460 40
Maintenance of equipment	4,683,080 27		5,239,898 88	D. 556,818 61
Traffic expenses	475,605 89		537,673 67	D. 62,067 78
Conducting transportation	9,346,048 67		9,256,228 01	I. 89,820 66
General expenses	596,664 50		585,186 69	I. 11,477 81
OPERATING EXPENSES		\$18,559,487 32	\$19,514,535 64	D. \$955,048 32
NET EARNINGS FROM OPERATIONS.				
To which add:—		\$10,402,729 83	\$11,646,845 52	D. \$1,244,115 69
Interest, General Account	\$75,424 80		35,867 07	I. 39,557 73
Rents	51,207 12		53,089 48	D. 1,873 36
Hire of equipment	504,340 18			I. 504,340 18
Income from other sources	76,057 27			I. 76,057 27
		707,029 37	\$88,947 55	I. \$618,081 82
TOTAL INCOME		\$11,109,759 20	\$11,738,793 07	D. \$629,033 87
From which deduct:—				
Interest on funded debt	\$3,785,013 34		3,222,807 33	I. 562,206 01
Interest on Equipment Trust obligations	442,666 66		492,888 89	D. 50,222 23
Taxes	1,020,800 00		996,000 00	I. 24,800 00
Rents of tracks, yards, terminals and other property	87,370 51		26,777 83	I. 60,592 68
		5,335,850 51	\$4,738,474 05	I. \$597,376 46
NET INCOME		\$5,773,908 69	\$7,000,319 02	D. \$1,226,410 33

From this net income for the year ending June 30th, 1908 \$5,773,908 69

The following amounts have been deducted:—

Payment to Pocahontas Coal and Coke Company on account of deficiency of interest on Norfolk and Western-Pocahontas Joint Bonds	\$192,000 00	
Other charges to income	53,792 40	
Dividends on adjustment preferred shares:		
No. 21. 2 per cent., August 16th, 1907	\$459,622 00	
No. 22. 2 per cent., February 19th, 1908	459,834 00	\$919,656 00
Appropriation for Betterments to Property	1,380,000 00	2,525,448 40
Amount carried to Profit and Loss for the year		\$3,248,460 29
Amount to credit of Profit and Loss, June 30th, 1907	\$4,472,405 57	
Dividends on common shares:		
No. 14. 2½ per cent., December 18th, 1907	\$1,611,730 00	
No. 15. 2 per cent., June 18th, 1908	1,289,384 00	2,901,114 00
		1,571,291 57
Discount and commission on securities sold		346,980 00
Balance to credit of Profit and Loss, June 30th, 1908		\$4,472,771 86

267 The gross earnings were \$15,397, and the net earnings \$5,530 per mile of road operated.

The operating expenses were 64.08 per cent. of the gross earnings, as against 62.62 per cent. in the preceding year.

Taxes were 3.52 per cent. of the gross earnings.

Capital Stock.

The authorized capital stock of the Company is \$100,000,000 common stock and \$23,000,000 adjustment preferred stock. The outstanding capital stock consists of—

660,000 shares of common stock	\$66,000,000 00
230,000 shares of adjustment preferred stock	23,000,000 00
Total	\$89,000,000 00

Six shares of the adjustment preferred stock in the treasury of the Company were exchanged for securities of the old Company which had not been deposited under the plan of reorganization, and at the close of the year there remained in the treasury 83 shares of adjustment preferred stock and 15,308 shares of common stock.

CONSTRUCTION, EQUIPMENT AND BETTERMENTS.

The expenditures for construction, equipment and betterments, summarized in the following table, aggregated \$8,418,993.46, of which \$6,137,599.24 was charged to Property Accounts, and \$2,281,394.22, to Betterment Fund.

	Charged to Property Accts.	Charged to Betterment Fund.	Total.
Branches and extensions . . .	\$322,134 64		\$322,134 64
Right of way and station grounds	244,937 50	\$45,370 60	290,308 10
Widening cuts and fills . . .		68,158 65	68,158 65
Protection of banks		85,318 51	85,318 51
Grade revision and change of line		23,315 07	23,315 07
Tunnel improvements		2,626 41	2,626 41
Bridges, trestles and culverts .		294,753 07	294,753 07
Ballast		722 02	722 02
Additional main tracks	1,163,322 09	924,953 50	2,088,275 59
Sidings and spur tracks	162,250 80	143 15	162,393 95
Terminal yards	720,511 40	12,894 48	733,405 88
Fencing right of way		11,090 50	11,090 50
Track elevation, elimination of grade crossings, etc.	4,500 65	10,191 97	14,692 62
Interlocking and other signal apparatus		79,520 24	79,520 24
Telegraph and telephone lines .		19,478 12	19,478 12
Station buildings and fixtures .	95,733 90	35,465 36	131,199 26
Shops, enginehouses and turn- tables	56,469 39	20,662 05	77,131 44
Shop machinery and tools . . .		141,828 77	141,828 77
Water and fuel stations	19,704 93	21,520 57	41,225 50
Miscellaneous structures		12,177 72	12,177 72
Reconstruction of road pur- chased	860 31		860 31
Rolling stock	3,347,173 63		3,347,173 63
	\$6,137,599 24	\$1,810,190 76	\$7,947,790 00
Add Principal of Equipment Trusts		471,203 46	471,203 40
Total	\$6,137,599 24	\$2,281,394 22	\$8,418,993 46

Advances for construction purposes were made as follows:—

Blackstone and Lunenburg Railroad	\$2,613 61
Lynchburg Belt Line & Connecting Railway	1,138,041 83
Big Stony Railway	145,789 56
Interior and West Virginia Railroad	239,383 09
“ “ “ “ “ % Virginia and Potts	
Creek Railroad	20,347 00
Pocahontas and Western Railroad	98,232 78
Guyandot and Tug River Railroad	10,185 05
Barker and Clarks Gap Railroad	69 40
Clear Fork and Oceana Railroad	22 12
Caretta Railway	10,386 59

269 To meet the cost of extraordinary replacements and betterments to your property the sum of \$1,360,000 has been appropriated from Surplus Income and credited to the Betterment Fund.

Following is a statement of the Betterment Fund for the fiscal year:—

Credit balance in Betterment Fund, June 30th, 1907.	\$1,204,648	67
Amount credited from Surplus Income of the year ending June 30th, 1908.....	1,360,000	00
	<hr/>	
	\$2,564,648	67
Charged against Betterment Fund during the year..	2,281,394	22
	<hr/>	
Balance to credit of Fund June 30th, 1908...	\$283,254	45
	<hr/>	

Following is a statement of the Equipment Replacement Accounts set up as of July 1st, 1907, pursuant to order of the Interstate Commerce Commission:—

Credits to Equipment Replacement Accounts:

Credit Balance from Equipment Renewal Account (closed June 30th, 1907).....	\$291,318	70
Equipment Depreciation for the year, charged in Operating Expenses.....	788,751	16
Credit for Equipment destroyed or sold, net value	154,355	04
Salvage from Equipment destroyed.....	70,483	04
	<hr/>	
	\$1,304,907	94

Equipment Expenditures charged to Equipment Replacement Accounts:

Principal of Equipment Trusts.	\$1,128,796	54
Other Equipment Payments...	176,111	40
	<hr/>	
	\$1,304,907	94
	<hr/>	

TRAFFIC.

As compared with the preceding year, passengers carried increased 573,745, or 13.5 per cent.; the average haul of passengers increased 1.96 miles.

The total passenger revenue decreased \$185,637.17, or 4.5 per cent.; the average rate per passenger per mile decreased 0.463 cents.

Tons of freight carried decreased 1,575,028 tons, or 7.8 per cent.; the average haul of freight increased 7.70 miles.

The total freight revenue decreased \$2,010,316.28, or 7.7 per cent.; the average rate per ton per mile decreased 0.014 cents.

The freight train mileage decreased 673,249 miles, or 7.2 per cent.; the average tons per train mile increased 2 tons, or 0.4 per cent.

The coal shipments were 9,719,968 tons, an increase of 319,536 tons, or 3.4 per cent.

The lumber shipments were 1,540,492 tons, a decrease of 428,247 tons, or 21.8 per cent.

The shipments of other low-class commodities connected with the iron and steel industries were as follows:—

Coke shipments were 2,147,010 tons, a decrease of 266,793 tons, or 11.1 per cent.

Ore shipments were 688,560 tons, a decrease of 279,479 tons, or 28.9 per cent.

Pig and bloom iron shipments were 315,825 tons, a decrease of 265,402 tons, or 45.7 per cent.

The following statement gives the passenger and freight statistics for the years 1908 and 1907:—

TRAFFIC AND MILEAGE STATISTICS.				1907-1908.	1906-1907.	Increase or Decrease.	Per Cent.
PASSENGER TRAFFIC:—							
Passengers carried.....		4,824,650		4,250,905	I.	573,745	13.5
" " one mile.....		209,279,408		176,082,609	I.	33,196,799	18.9
" " per mile of road.....		111,260		93,861	I.	17,399	18.5
Average distance carried per passenger (miles).....		43.38		41.42	I.	1.96	4.7
Total passenger revenue.....		\$3,977,482 05		\$4,163,119 22	D.	\$185,637 17	4.5
Average revenue from passengers (cents).....		82.44		97.93	D.	15.49	15.8
Average revenue per passenger per mile (cents).....		1.901		2.364	D.	0.463	19.6
Total passenger earnings.....		\$4,798,277 59		\$4,969,578 92	D.	\$171,301 33	3.4
Passenger earnings per mile of road.....		\$2,550 92		\$2,649 03	D.	\$98 11	3.7
" " train mile (cents).....		120.72		138.74	D.	18.03	13.0
FREIGHT TRAFFIC:—							
Tons of freight carried.....		18,608,190		20,183,218	D.	1,575,028	7.8
Tons carried one mile.....		4,985,915,528		5,252,561,457	D.	266,645,929	5.1
" " per mile of road.....		2,650,673		2,799,873	D.	149,200	5.3
Average distance carried per ton (miles).....		267.94		260.24	I.	7.70	3.0
Total revenue from freight.....		\$23,990,629 53		\$26,000,945 81	D.	\$2,010,316 28	7.7
Average revenue per ton of freight (cents).....		128.93		128.82	I.	0.11	0.1
" " per mile (cents).....		0.461		0.495	D.	0.034	2.8
Total freight earnings.....		\$24,163,939 56		\$26,194,802 24	D.	\$2,030,862 68	7.8
Freight earnings per mile of road.....		\$12,846 33		\$13,963 11	D.	\$1,116 78	8.0
" " train mile (cents).....		276.81		283.78	D.	6.97	2.5

TRAFFIC AND MILEAGE STATISTICS.

	1907-1908.	1906-1907.	Increase or Decrease.	Per Cent.
TOTAL TRAFFIC:-				
Gross earnings...	\$28,862,217 15	\$31,164,981 16	D. \$2,202,164 01	7.1
" " per mile of road.....	\$15,397 24	\$16,612 14	D. \$1,214 90	7.3
" " " train mile (cents).....	231.10	243.28	D. 12.18	5.0
Operating expenses:				
Passenger.....	\$3,074,246 10	\$3,079,886 33	D. \$5,590 23	0.2
Freight.....	\$15,485,241 22	\$16,434,699 31	D. \$949,458 09	5.8
Passenger and freight.....	\$18,559,487 32	\$19,514,535 64	D. \$955,048 32	4.9
Per mile of road, passenger.....	\$1,634 37	\$1,641 70	D. \$7 33	0.4
" " " freight.....	\$8,232 45	\$8,760 50	D. \$528 05	6.0
" " " passenger and freight.....	\$9,866 82	\$10,402 20	D. \$535 38	5.1
" " " train mile, passenger (cents).....	77.34	85.98	D. 8.64	10.0
" " " " freight (cents).....	177.39	178.04	D. 0.65	0.4
" " " " passenger and freight (cents).....	148.09	152.31	D. 4.22	2.8
" " " passenger per mile (cents).....	1.469	1.749	D. 0.280	16.0
" " " ton per mile (cents).....	0.311	0.313	D. 0.002	0.6
Net earnings:				
Passenger.....	\$1,724,031 49	\$1,889,742 59	D. \$165,711 10	8.8
Freight.....	\$8,678,698 34	\$9,760,102 93	D. \$1,081,404 59	11.1
Passenger and freight.....	\$10,402,729 83	\$11,649,845 52	D. \$1,247,115 69	10.7
Per mile of road, passenger.....	\$916 55	\$1,007 33	D. \$90 78	9.0
" " " freight.....	\$4,613 87	\$5,202 61	D. \$588 74	11.3
" " " passenger and freight.....	\$5,530 42	\$6,209 94	D. \$679 52	10.9
" " " train mile, passenger (cents).....	43.38	52.76	D. 9.39	17.8
" " " " freight (cents).....	99.42	105.74	D. 6.32	6.0
" " " " passenger and freight (cents).....	83.01	90.92	D. 7.91	8.7
" " " passenger per mile (cents).....	0.824	1.073	D. 0.249	23.2
" " " ton per mile (cents).....	0.174	0.185	D. 0.011	5.9

TRAFFIC AND MILEAGE STATISTICS.	1907-1908.	1906-1907.	Increase or Decrease.	Per Cent.
TRAIN MILEAGE:—				
Of revenue passenger trains.....	3,802,761	3,581,926	I. 220,835	6.2
" revenue freight trains.....	8,557,450	9,230,699	D. 673,249	7.2
" revenue mixed trains.....	172,103	*		
" revenue special trains.....	4,970	*		
" non-revenue trains.....	506,757	715,717	D. 208,960	29.2
Made by all trains.....	13,044,041	13,528,342	D. 484,301	3.6
ENGINE MILEAGE:—				
Of passenger engines.....	3,802,761	3,581,926	I. 220,835	6.2
" passenger engines employed in helping passenger trains.....	209,222	214,193	D. 4,971	2.3
" freight engines.....	8,557,450	9,230,699	D. 673,249	7.3
" freight engines employed in helping freight trains.....	4,176,123	5,659,916	D. 1,483,793	26.5
" mixed engines.....	172,103	*		
" mixed train engines employed in helping mixed trains.....	7,945	*		
" special train engines.....	4,970	*		
" special train engines employed in helping special trains.....	1,215	*		
" shifting engines.....	2,994,575	3,136,436	D. 141,861	4.5
" non-revenue engines.....	567,977	720,902	D. 152,925	21.2
" all engines.....	20,494,341	22,544,072	D. 2,049,631	9.0
CAR MILEAGE:—				
Mileage of passenger cars.....	21,842,100	19,879,208	I. 1,962,892	9.9
Average number passenger cars per train mile.....	5.50	5.55	D. .05	.009
Average number of passengers per train mile.....	53	49	I. 4	8.2
Mileage of cars in special service.....	58,839	*		
Mileage of loaded freight cars:				
North and East.....	99,336,054	113,790,046	D. 14,453,992	12.7
South and West.....	83,712,120	92,123,010	D. 8,410,890	9.1
Mileage of empty freight cars:				
North and East.....	51,614,887	47,825,780	I. 3,789,107	7.9
South and West.....	63,033,431	65,076,042	D. 2,042,611	3.1
Mileage of caboose cars:				
North and East.....	4,291,175	†		
South and West.....	4,247,355	†		
Average number freight cars per train mile excluding caboose.....	34.10	34.54	D. .44	.012
Average number loaded freight cars per train mile.....	20.97	22.31	D. 1.34	6.0
Average number empty freight cars per train mile excluding caboose.....	13.13	12.23	I. .90	7.4
Average number tons freight per train mile.....	571	569	I. 2	0.4
Average number tons freight per loaded car mile.....	27.24	25.50	I. 1.74	6.8
Average mileage operated during year.....	1,881	1,876	I. 5	0.3

* Included in freight and passenger.

† Included in empty freight car mileage.

Summary of Passenger and Freight Car Mileage.

	Year ending June 30th.	
	1908.	1907.
Total passenger car mileage on Norfolk and Western Railway	21,842,100	19,879,208
Mileage of Norfolk and Western passenger cars on Norfolk and Western Railway	16,720,104	15,759,070
Mileage of Norfolk and Western passenger cars on foreign lines	1,208,035	1,291,454
Total mileage made by Norfolk and Western passenger cars	17,928,139	17,050,524
Mileage of foreign passenger cars (including Pullman) on Norfolk and Western Railway	5,121,996	4,120,138
Percentage of passenger car mileage made by foreign cars	23.45	20.73
Mileage of Norfolk and Western freight cars on Norfolk and Western Railway (including caboose).	204,641,146	195,848,745
Mileage of foreign freight cars on Norfolk and Western Railway	101,595,157	122,966,133
Percentage of freight car mileage made by foreign cars	33.18	38.57
Mileage of Norfolk and Western box cars on Norfolk and Western Railway	31,056,121	25,267,081
Average number of box cars in service on Norfolk and Western Railway	3,747	3,116
Average daily mileage of box cars on Norfolk and Western Railway	22.71	22.24
Mileage of Norfolk and Western coal cars on Norfolk and Western Railway	140,229,117	136,768,201
Average number of coal cars in service on Norfolk and Western Railway	15,219	12,912
Average daily mileage of coal cars on Norfolk and Western Railway	25.24	28.42
Total Norfolk and Western freight car mileage on Norfolk and Western Railway in transportation of freight	197,151,965	187,327,263
Average number of Norfolk and Western freight cars in service	35,184	32,724
Average number of Norfolk and Western freight cars in service on Norfolk and Western Railway	22,787	18,777
Average daily mileage on Norfolk and Western Railway	23.70	27.33

NORFOLK AND WESTERN RAILWAY COMPANY.

General Balance Sheet, June 30th, 1908

ASSETS.

			Comparison with June 30th, 1907.
COST OF ROAD AND EQUIPMENT:—			
Railroad franchises and other property,	\$154,311,638 63		I. \$2,790,425 61
Rolling stock	15,830,194 88		I. 3,347,173 63
		\$170,141,833 51	
ADVANCES FOR CONSTRUCTION:—			
CONCORD AND FOREST BRANCHES			D. 1,381,142 76
BLACKSTONE AND LUNENBURG RAIL- ROAD COMPANY		51,182 09	I. 2,613 61
BIG STONY RAILWAY COMPANY		156,327 46	I. 145,789 55
INTERIOR AND WEST VIRGINIA RAIL- ROAD COMPANY		314,730 19	I. 259,730 09
POCAHONTAS AND WESTERN RAILROAD COMPANY		411,523 44	I. 98,232 78
GUYANDOT AND TUG RIVER RAILROAD COMPANY		205,172 47	I. 10,185 05
BARKER AND CLARKS GAP RAILROAD COMPANY		69 40	I. 69 40
CLEAR FORK AND OCEANA RAILROAD COMPANY		22 12	I. 22 12
WEST VIRGINIA SOUTHWESTERN RAIL- WAY		151,655 07	
CARETTA RAILWAY COMPANY		10,386 59	I. 10,386 59
EQUIPMENT LEASED UNDER TRUST AGREEMENTS, LESS, AMOUNTS PAID OUT OF INCOME		14,476,585 01	I. 2,576,585 01
EQUIPMENT UNDER LEASES FROM VIR- GINIA COMPANY			D. 3,500,000 00
COMPANY'S SECURITIES OWNED:—			
Adjustment preferred stock	\$8,300 00		D. 600 00
Common stock	1,530,800 00		
First consolidated mortgage bonds	13,000 00		
Divisional first lien and general mort- gage bonds	10,000,000 00		I. 10,000,000 00
		11,552,100 00	
EQUIPMENT TRUST CERTIFICATES OWNED		3,600,000 00	I. 3,600,000 00
INVESTMENTS IN OTHER COMPANIES		3,681,738 05	I. 2,753,501 87
ACCOUNTS RECEIVABLE:—			
Station agents	\$567,018 35		D. 389,015 77
Traffic balances	663,401 17		D. 236,547 69
United States Government	72,264 96		I. 3,092 16
Individuals and companies	823,653 71		D. 151,508 13
Proceeds of Convertible Bonds (De- ferred instalment)			D. 4,076,000 00
		2,126,338 19	
INSURANCE PAID IN ADVANCE		33,889 47	D. 12,555 79
MATERIAL AND SUPPLIES		2,778,175 52	D. 674,511 87
POCAHONTAS COAL AND COKE COMPANY —CASH ADVANCES FOR ADDITIONAL REAL ESTATE		906,000 00	D. 19,000 00
VIRGINIA COMPANY			D. 172,713 74
CASH		6,019,352 16	I. 1,606,085 34
		\$216,797,060 74	I. \$16,590,297 06

*Includes Lynchburg Belt Line and Connecting Railway Company 5% Bond for \$2,748,780.28 referred to on page 13.

NORFOLK AND WESTERN RAILWAY COMPANY.

General Balance Sheet, June 30th, 1908.

LIABILITIES.

			Comparison with June 30th, 1907.
CAPITAL STOCK :—			
Adjustment preferred	\$23,000,000 00		
Common	66,000,000 00	\$89,000,000 00	
FUNDED DEBT :—			
South Side Railroad Company consolidated mortgage bonds	\$1,000 00		
Virginia and Tennessee Railroad Company enlarged mortgage bonds	5,000 00		
Norfolk and Western Railroad Co. : General mortgage 6 per cent. bonds	7,283,000 00		
New River Division first mortgage 6 per cent. bonds	2,000,000 00		
Improvement and Extension mortgage 6 per cent. bonds	5,000,000 00		
Scioto Valley and New England R. R. Co. first mortgage 4 per cent. bonds	5,000,000 00		
Columbus Connecting and Terminal R. R. Co. 5 per cent. mortgage bonds	600,000 00		
Norfolk and Western Railway Co. : First consolidated mortgage 4 per cent. bonds	40,400,500 00		
Divisional first lien and general mortgage 4 per cent. bonds	23,000,000 00		I. \$10,000,000 00
Convertible 10-25 year 4 per cent. bonds	14,576,000 00	97,865,500 00	
OUTSTANDING EQUIPMENT TRUST CERTIFICATES FOR LEASED EQUIPMENT		13,900,000 00	I. 2,000,900 00
NORFOLK AND WESTERN RAILWAY CO. 5 PER CENT. TWO-YEAR COLLATERAL NOTES		7,500,000 00	I. 7,500,000 00
INTEREST ON FUNDED DEBT, EQUIPMENT TRUST CERTIFICATES AND COLLATERAL NOTES ACCRUED BUT NOT MATURED		1,186,227 00	I. 65,775 33
LYNCHBURG BELT LINE AND CONNECTING RAILWAY CO. CONSTRUCTION		229,595 69	I. 229,595 69
ACCOUNTS PAYABLE :—			
Pay rolls	\$822,593 60		D. 452,042 90
Audited vouchers	690,242 20		D. 1,508,500 92
Traffic balances	47,726 85		D. 64,819 70
Individuals and companies	309,289 36	1,869,851 91	I. 180,752 90
TAXES ACCRUED		489,859 83	I. 37,798 27
RESERVES :—			
Equipment renewal			D. 291,318 70
Rail renewal			D. 157,349 56
Cross tie renewal			D. 28,565 42
Betterments		283,254 45	D. 921,394 22
PROFIT AND LOSS		4,472,771 86	I. 366 29
		\$216,797,060 74	I. \$16,590,297 06

Table No. 3.

Analysis of Earnings and Expenses of the Norfolk and Western Railway Company for the Year ending June 30th, 1908.

	PASSENGER ACCOUNT.			FREIGHT ACCOUNT.		
	Amount.	Rate in Cents. Per Pass'r per Mile.	Per Train per Mile.	Amount.	Rate in Cents. Per Ton per Mile.	Total Amount
Earnings from passengers	\$3,977,482 05	1.900	100.07	\$23,990,629 53	.481	\$3,977,482 05
" freight						23,990,629 53
" express	449,324 36	.215	11.30			449,324 36
" U. S. mail	290,577 85	.139	7.31			290,577 85
" miscellaneous sources	80,893 33	.039	2.04	173,310 03	.004	254,203 36
Total gross earnings	\$4,798,277 59	2.293	120.72	\$24,163,939 56	.485	\$28,962,217 15
Expenses (operating) :—						
Maintenance of way and structures	\$682,421 99	.326	17.17	\$2,775,666 00	.056	\$3,458,087 99
" equipment	562,088 90	.269	14.14	4,120,991 37	.083	4,683,080 27
Traffic expenses	118,356 41	.057	2.98	357,249 48	.007	475,605 89
Conducting transportation	1,599,507 28	.764	40.24	7,746,541 39	.155	9,346,048 67
General expenses	111,871 52	.053	2.81	484,792 98	.010	596,664 50
Total expenses	\$3,074,246 10	1.469	77.34	\$15,485,241 22	.311	\$18,559,487 32
Net earnings	\$1,724,031 49	.824	43.38	\$8,678,698 34	.174	\$10,402,729 83
Ratio of expenses to earnings	64.07 per cent.			64.08 per cent.		64.08 per cent.
Total mileage of revenue trains	3,974,864 miles.			8,729,553 miles.		
Total lading of revenue trains	4,824,650 passengers.			19,808,190 tons.		
Total passenger or freight mileage	200,279,408 passengers one mile.			4,985,915,528 tons one mile.		
Average haul of passenger or freight	43.38 miles per passenger.			267.94 miles per ton.		

Table No. 6.
General Summary of Passenger Transportation on the Norfolk and Western Railway for the year ending June 30th, 1908.

POINTS FROM AND TO.	Local or Through Business.	TOTALS.			Earnings per Passenger per Mile. (Cents.)	Average Distance Carried.
		Passengers Carried.	Passengers One Mile.	Earnings.		
Local to local	Local	4,469,118	147,345,664	\$2,869,041 19	1.947	33.0
Local to foreign	"	163,077	27,436,620	472,868 15	1.723	168.2
Foreign to local	"	159,898	26,830,315	456,670 13	1.702	168.0
Total local business		4,791,893	201,612,799	\$3,798,579 47	1.894	42.1
Foreign to foreign	Through	32,757	7,666,609	178,902 58	2.334	234.0
Grand total		4,824,650	209,279,408	\$3,977,482 05	1.901	43.4

General Summary of Freight Transportation on the Norfolk and Western Railway for the year ending June 30th, 1908.

POINTS FROM AND TO.	Local or Through Business.	TOTALS.			Earnings per Ton per Mile. (Cents.)	Average Distance Carried.
		Tons Carried.	Tons One Mile.	Earnings.		
Local to local	Local	4,688,379	777,482,511	\$5,431,374 19	.699	165.8
Local to foreign	"	10,326,975	3,174,275,991	12,234,930 22	.385	307.4
Foreign to local	"	1,747,780	413,617,612	3,140,411 18	.759	236.7
Total local business		16,764,134	4,365,376,114	\$20,806,715 59	.477	260.4
Foreign to foreign	Through	1,844,056	620,539,414	3,182,913 94	.513	336.5
Grand total		18,608,190	4,985,915,528	\$23,990,629 53	.481	267.9

Table No. 7.

Classification of Freight carried on the Norfolk and Western Railway for the year ending June 30th, 1908, as compared with same period previous year (net tons).

CLASSES.	1907-1908.	1906-1907.	Inc. or Dec. in 1907-1908.	
			Increase.	Decrease.
PRODUCTS OF AGRICULTURE.				
Grain	337,425	380,251		42,826
Flour	155,863	180,207		24,344
Other mill products	105,773	96,357	9,416	
Hay	130,185	159,124		28,938
Tobacco	91,628	117,140		25,512
Cotton	24,308	44,470		20,162
Fruit and vegetables	137,432	124,860	12,772	
Peanuts	36,770	36,199	571	
Other products of agriculture	15,254	15,135	119	
PRODUCTS OF FORESTS.				
Lumber	1,540,492	1,968,739		428,247
Cord wood	99,386	117,728		18,342
Other products of forests	179,535	79,623	99,912	
PRODUCTS OF ANIMALS.				
Live stock	64,314	64,681		367
Dressed meats	17,049	16,887	162	
Other packing-house products	63,304	53,817	9,487	
Poultry, game, and fish	1,862	1,576	286	
Wool	3,083	5,623		2,540
Hides and leather	35,481	32,357	3,124	
Other products of animals	1,550	2,886		1,336
PRODUCTS OF MINES.				
Anthracite coal	36,918	38,694		1,776
Bituminous coal	9,683,050	9,361,738	321,312	
Coke	2,147,010	2,413,803		266,793
Ores	688,560	968,039		279,479
Stone, sand and other articles	283,869	235,531	48,338	
Limestone	200,639	360,791		160,152
Other products of mines	172,311	289,854		117,543
MANUFACTURES.				
Petroleum and other oils	57,576	62,645		5,069
Sugar	73,425	90,134		16,709
Naval stores	756	448	308	
Iron—pig and bloom	315,825	581,227		265,402
Iron and steel rails	66,106	82,568		16,462
Other castings and machinery	158,597	234,574		75,977
Bar and sheet metal	116,663	206,510		89,847
Cement, brick and lime	403,005	510,645		107,640
Fertilizer	113,991	102,005	11,986	
Agricultural implements	31,887	17,788	14,099	
Wagons, carriages, tools, etc.	14,352	21,276		6,924
Wines, liquors, and beers	38,012	39,077		1,065
Household goods and furniture	51,433	188,416		136,983
Other manufactures	526,790	96,690	430,100	
Merchandise	225,354	399,077		173,723
Miscellaneous: Other commodities not mentioned above	161,367	384,228		222,861
Total tonnage	18,606,190	20,183,218	961,992	2,537,020
Net dec. for year ending June 30th, 1908,				1,575,028

Exhibit J. V. & No. 5

GENERAL INCOME ACCOUNT

For the Year Ending June 30th, 1909, and Comparison with Previous Year.

	1909.	1909.	1908.	Increase or Decrease.
EARNINGS.				
From freight	\$24,710,501 12		\$23,990,629 53	I. \$719,861 59
" passengers	3,642,837 04		3,977,482 05	D. 334,645 01
" mail	294,452 54		290,577 85	I. 3,874 69
" express	428,047 36		449,324 36	D. 23,277 00
" miscellaneous	253,173 60		254,203 38	D. 1,029 78
TOTAL EARNINGS		\$29,327,101 66	\$28,962,217 15	I. \$364,884 51
EXPENSES.				
Maintenance of way and structures	\$3,331,888 47		\$3,384,709 39	D. \$52,820 92
Maintenance of equipment	4,919,434 74		4,910,241 68	I. 9,193 06
Traffic expenses	487,106 05		475,578 09	I. 11,527 96
Conducting transportation	8,346,991 94		9,324,276 16	D. 977,284 22
General expenses	644,335 23		669,908 58	D. 25,573 35
OPERATING EXPENSES		\$17,729,756 43	\$18,764,713 90	D. \$1,034,957 47
NET EARNINGS FROM OPERATION		\$11,597,345 23	\$10,197,503 25	I. \$1,399,841 98
To which add:—				
Interest, General Account	\$459,474 57		137,924 80	I. 321,549 77
Rents	84,373 03		51,207 12	I. 3,165 91
Hire of equipment	467,264 63		709,566 76	D. 242,302 13
Income from other sources			22,264 87	D. 22,264 87
		981,112 23	\$920,963 55	I. \$60,148 68
TOTAL INCOME		\$12,578,457 46	\$11,118,466 80	I. \$1,459,990 66
From which deduct:—				
Interest on funded debt	\$3,985,520 00		3,785,013 34	I. 200,506 66
Interest on Equipment Trust obligations	378,666 66		442,666 66	D. 64,000 00
Interest on 2-year 5 per cent. Collateral Gold Notes	379,045 63		62,500 00	I. 316,545 63
Taxes	1,008,800 00		1,020,800 00	D. 12,000 00
Rents of tracks, yards, terminals and other property	152,816 96		87,370 51	I. 65,446 45
Miscellaneous	8,175 33			I. 8,175 33
		5,913,024 58	\$5,398,360 51	I. \$514,674 07
NET INCOME		\$6,665,432 88	\$5,720,116 29	I. \$945,316 59

From this net income for the year ending June 30th, 1909 \$6,665,432 88

The following amounts have been deducted:—

Payments to Pocahontas Coal and Coke Company on account of deficiency of interest on Norfolk and Western-Pocahontas Joint Bonds \$150,000 00

Dividends on adjustment preferred shares:

No. 24. 2 per cent., paid February 18th, 1909, \$459,834 00

No. 25. 2 per cent., payable Aug. 18th, 1909, 459,834 00

919,668 00

Dividends on common shares:

No. 16. 2 per cent., paid Dec. 18th, 1908, 1,289,384 00

No. 17. 2 per cent., paid June 18th, 1909, 1,289,384 00

2,578,768 00

Appropriation for betterments to property 1,730,580 35 5,379,016 35

Amount carried to Profit and Loss for the year \$1,286,416 53

Amount to credit of Profit and Loss, June 30th, 1908 4,472,771 66

\$5,759,188 39

Dividend No. 23 on Adjustment Preferred shares paid August 18th, 1908

\$459,834 00

Discount and commission on securities sold 800,000 00 1,259,834 00

Balance to credit of Profit and Loss, June 30th, 1909 \$4,499,354 39

281 NOTE A.—To facilitate comparison, the classification of the charges to the sub-accounts "Equipment Borrowed and Loaned," "Work Equipment," and "Insurance," in operating expenses for the year 1907-8 has been changed to conform to that of the year covered by this report.

NOTE B.—Heretofore the dividend on Adjustment Preferred Stock declared in June, payable in August, was charged to the income of the fiscal year in which it was payable and not to that of the fiscal year in which it was earned. In this report adjustment has been made by charging the dividend payable in August, 1909, to income, and the dividend paid in August, 1908, to Profit and Loss; so that only two dividends on Adjustment Preferred Stock appear as charged against the Income Account of this year.

The gross earnings as reported include an additional sum of \$129,455.20 collected in the previous year, as more particularly described on pages 25 and 26 of this report. The following table compares results of the two years after making the adjustments involved:

	1908-09.	1907-08.
Gross Earnings per mile of road. . .	\$15,168.00	\$15,466.00
Net Earnings per mile of road. . .	5,957.00	5,590.00
Ratio of Expenses to Gross Earnings	60.72%	64.50%
Ratio of Taxes to Gross Earnings. . .	3.46%	3.51%

Capital Stock.

The authorized capital stock of the Company is \$100,000,000 common stock and \$23,000,000 adjustment preferred stock. The outstanding capital stock consists of—

660,000 shares of common stock.	\$66,000,000 00
230,000 shares of adjustment preferred stock.	23,000,000 00
Total	\$89,000,000 00

of which there was in the treasury of the Company \$8,300 of adjustment preferred stock and \$1,530,800 of common stock.

283	To meet the cost of extraordinary replacements and betterments to your property there has been appropriated from net income the sum of.....	\$1,730,580 35
	Credit balance in Betterment Fund, June 30th, 1908	283,254 45
	Total	\$2,013,834 80

Against this amount the following expenditures have been charged:

Betterments excluding rolling stock	\$1,341,582 00
Principal of Equipment Trusts.	672,252 74
	<u>\$2,013,834 80</u>

Following is a statement of the Equipment Replacement Account for the fiscal year:—

Credits to Equipment Replacements:

Equipment Depreciation for the year, charged in Operating Expenses	\$1,172,802 71
Equipment destroyed or sold, net value.....	214,900 00
Salvage from Equipment destroyed.....	108,728 93
Total Credits	\$1,496,431 64

Charges:

New Equipment	\$346,011 15
Principal of Equipment Trusts. . .	927,747 26
	<u>1,273,758 41</u>
Credit balance, June 30th, 1909.....	<u>\$222,673 23</u>

Traffic.

As compared with the preceding year, the number of passengers carried increased 94,885, or 2.0 per cent.; the average haul of passengers decreased 8.57 miles.

The total passenger revenue decreased \$334,645.01, or 8.4 per cent.; the average rate per passenger per mile increased 0.227 cents.

Tons of freight carried increased 1,441,013 tons, or 7.7 per cent.; the average haul of freight increased 0.25 miles.

The total freight revenue increased \$719,961.59, or 3.0 per cent.; the average rate per ton per mile decreased 0.021 cents.

The freight train mileage decreased 4,037 miles, or 0.05 per cent.; the average tons per train mile increased 45 tons, or 7.9 per cent.

The coal shipments were 10,978,560 tons, an increase of 1,258,592 tons, or 12.9 per cent.

The lumber shipments were 1,523,518 tons, a decrease of 16,974 tons, or 1.1 per cent.

The shipments of other low-class commodities connected with the iron and steel industries were as follows:—

Coke shipments were 2,260,827 tons, an increase of 113,817 tons, or 5.3 per cent.

Ore shipments were 692,488 tons, an increase of 3,928 tons, or 0.6 per cent.

Pig and bloom iron shipments were 333,762 tons, an increase of 17,937 tons, or 5.7 per cent.

The following statement gives the passenger and freight statistics for the years 1909 and 1908:—

TRAFFIC AND MILEAGE STATISTICS.

TRAFFIC AND MILEAGE STATISTICS.		1908-1909.	1907-1908.	Increase or Decrease.	Per Cent.
FREIGHT TRAFFIC:—					
Tons of freight carried.....		20,049,203	18,608,190	I.	1,441,013
Tons carried one mile.....		5,377,020,950	4,985,915,528	I.	391,105,422
" " per mile of road.....		2,793,258	2,650,673	I.	142,585
Average distance carried per ton (miles).....		268.19	267.94	I.	0.25
Total revenue from freight.....		\$24,710,591.12	\$23,990,629.53	I.	\$719,961.59
Average revenue per ton of freight (cents).....		123.25	128.93	D.	5.68
" " per mile (cents).....		0.460	0.481	D.	0.021
Total freight earnings.....		\$24,881,320.48	\$24,163,939.56	I.	\$717,380.92
Freight earnings per mile of road.....		\$12,925.36	\$12,846.32	I.	\$79.04
" " train mile (cents).....		285.16	276.81	I.	8.35
PASSENGER TRAFFIC:—					
Passengers carried.....		4,919,535	4,824,650	I.	94,885
" " one mile.....		171,370,331	209,279,408	D.	38,009,077
" " per mile of road.....		88,972	111,260	D.	22,288
Average distance carried per passenger (miles).....		34.81	43.38	D.	8.57
Total passenger revenue.....		\$3,642,837.04	\$3,977,482.05	D.	\$334,645.01
Average revenue per passenger (cents).....		74.05	82.44	D.	8.39
Average revenue per passenger per mile (cents).....		2.127	1.900	I.	0.227
Total passenger earnings.....		\$4,445,781.18	\$4,798,277.59	D.	\$352,496.41
Passenger earnings per mile of road.....		\$2,309.50	\$2,550.92	D.	\$241.42
" " train mile (cents).....		118.12	120.72	D.	2.60

* Includes \$139,455.20, collected in the preceding year, as explained on pages 25 and 26.

TRAFFIC AND MILEAGE STATISTICS.

TOTAL TRAFFIC:—

	1908-1909.	* 1907-1908.	Increase or Decrease.	Per Cent.
Gross earnings.....	\$29,327,101 66	\$28,962,217 15	I. \$364,884 51	1.3
" " per mile of road.....	\$15,234 86	\$15,397 24	D. \$162 38	1.1
" " " train mile (cents).....	234.82	231.10	I. 3.72	1.6
Operating expenses.....				
Freight.....	\$14,838,663 59	\$15,690,651 08	D. \$851,987 49	5.4
Passenger.....	\$2,891,092 84	\$3,074,062 82	D. \$182,969 98	6.0
Total.....	\$17,729,756 43	\$18,764,713 90	D. \$1,034,957 47	5.5
Per mile of road, freight.....	\$7,708 39	\$8,841 65	D. \$633 26	7.6
" " " passenger.....	\$1,501 87	\$1,634 27	D. \$132 40	8.1
" " " Total.....	\$9,210 26	\$9,975 92	D. \$765 66	7.7
Per train mile, freight (cents).....	170.06	179.74	D. 9.68	5.4
" " " passenger (cents).....	76.81	77.34	D. 0.53	0.7
" " " Total (cents).....	141.96	147.70	D. 5.74	3.9
Per ton per mile (cents).....	0.276	0.315	D. 0.039	12.4
" " passenger per mile (cents).....	1.688	1.469	I. 0.219	14.9
Net earnings.....				
Freight.....	\$10,042,656 89	\$8,473,288 48	I. \$1,569,368 41	18.5
Passenger.....	\$1,554,688 34	\$1,724,214 77	D. \$169,526 43	9.8
Total.....	\$11,597,345 23	\$10,197,503 25	I. \$1,399,841 98	13.7
Per mile of road, freight.....	\$5,216 97	\$4,504 67	I. \$712 30	15.8
" " " passenger.....	\$807 63	\$916 65	D. \$109 02	11.9
" " " Total.....	\$6,024 60	\$5,421 32	I. \$603 28	11.1
Per train mile, freight (cents).....	115.10	97.06	I. 18.14	18.7
" " " passenger (cents).....	41.31	43.38	D. 2.07	4.8
" " " Total (cents).....	92.86	80.27	I. 12.59	15.7
Per ton per mile (cents).....	0.187	0.170	I. 0.017	10.0
" " passenger per mile (cents).....	0.908	0.824	I. 0.084	10.2

* See Note A at top of page 8

TRAFFIC AND MILEAGE STATISTICS.	1908-1909.	1907-1908.	Increase or Decrease.	Per Cent.
TRAIN MILEAGE:—				
Of revenue freight trains.....	8,548,948	8,557,450	D. 8,502	0.1
" revenue passenger trains.....	3,587,179	3,802,761	D. 215,582	5.7
" revenue mixed trains.....	176,568	172,103	I. 4,465	2.6
" revenue special trains.....	4,827	4,970	D. 143	2.9
" non-revenue trains.....	475,845	506,757	D. 30,912	6.1
Made by all trains.....	12,793,367	13,044,041	D. 250,674	1.9
LOCOMOTIVE MILEAGE:—				
Of revenue freight trains.....	12,401,584	12,783,573	D. 331,989	2.6
" revenue passenger trains.....	3,754,919	4,011,983	D. 257,064	6.4
" revenue mixed trains.....	184,092	180,048	I. 4,044	2.2
" revenue special trains.....	6,485	6,185	I. 300	4.9
" switching locomotives.....	2,492,618	2,994,575	D. 501,957	16.8
" non-revenue trains.....	536,632	567,977	D. 31,245	5.5
" all locomotives.....	19,876,330	20,494,341	D. 1,118,011	5.5
CAR MILEAGE:—				
Mileage of loaded freight cars:				
North and East.....	98,750,697	99,336,054	D. 585,357	.5
South and West.....	98,128,217	83,712,120	I. 9,416,097	11.2
Mileage of empty freight cars:				
North and East.....	60,460,159	51,614,887	I. 8,845,272	17.1
South and West.....	63,008,681	63,033,431	D. 24,750	.04
Mileage of caboose cars:				
North and East.....	4,307,422	4,291,175	I. 15,247	.4
South and West.....	4,237,093	4,247,355	D. 10,262	.2
Average number freight cars per train mile excluding caboose...	36.14	34.10	I. 2.04	6.0
Average number loaded freight cars per train mile.....	21.99	20.97	I. 1.02	4.9
Average number empty freight cars per train mile excluding caboose.....	14.15	13.13	I. 1.02	7.8
Average number tons freight per train mile.....	616	571	I. 45	7.9
Average number tons freight per loaded car mile.....	28.02	27.24	I. .78	.03
Mileage of passenger cars.....	19,709,897	21,842,100	D. 2,132,203	9.7
Average number passenger cars per train mile.....	5.24	5.50	D. .26	.05
Average number of passengers per train mile.....	46	53	D. 7	13.3
Mileage of cars in special service	64,891	58,339	I. 6,552	11.2
Average mileage operated during year.....	1,925	1,881	I. 44	2.3

Summary of Freight and Passenger Car Mileage.

	Year ending June 30th.	
	1909.	1908.
Mileage of Norfolk and Western freight cars on Norfolk and Western Railway (including caboose).	228,816,345	204,641,146
Mileage of foreign freight cars on Norfolk and Western Railway	95,075,924	101,595,157
Percentage of freight car mileage made by foreign cars	29.35	33.18
Mileage of Norfolk and Western box cars on Norfolk and Western Railway	39,001,480	31,056,121
Average number of box cars in service on Norfolk and Western Railway	4,128	3,747
Average daily mileage of box cars on Norfolk and Western Railway	25.90	22.71
Mileage of Norfolk and Western coal cars on Norfolk and Western Railway	153,051,982	140,229,117
Average number of coal cars in service on Norfolk and Western Railway	15,268	15,219
Average daily mileage of coal cars on Norfolk and Western Railway	27.46	25.24
Total Norfolk and Western freight car mileage on Norfolk and Western Railway in transportation of freight	221,004,127	197,151,965
Average number of Norfolk and Western freight cars in service	34,005	35,184
Average number of Norfolk and Western freight cars in service on Norfolk and Western Railway	23,085	22,787
Average daily mileage on Norfolk and Western Railway	26.25	23.70
Total passenger car mileage on Norfolk and Western Railway	19,709,897	21,842,100
Mileage of Norfolk and Western passenger cars on Norfolk and Western Railway	15,050,154	16,720,104
Mileage of Norfolk and Western passenger cars on foreign lines	1,107,312	1,208,035
Total mileage made by Norfolk and Western passenger cars	16,166,476	17,928,139
Mileage of foreign passenger cars (including Pullman) on Norfolk and Western Railway	4,650,743	5,121,996
Percentage of passenger car mileage made by foreign cars	23.60	23.45

289 Recovery from the recent business depression has made substantial progress and already indicates that the limit of economical and efficient operation on parts of your Line has again been reached. As rapidly as financial conditions warranted, the partially suspended work of double tracking in West Virginia and Ohio was resumed. Much of it has been completed and is now in operation; the balance is progressing rapidly. After the work now authorized is completed there will remain 64 miles of single track in Ohio and 21 miles in West Virginia which must be converted into double track as rapidly as possible, to enable your management to meet the requirements of business confronting your Company.

NORFOLK AND WESTERN RAILWAY COMPANY.

General Balance Sheet, June 30th, 1909.

ASSETS.

			Comparison with June 30th, 1908.
COST OF ROAD AND EQUIPMENT:—			
Railroad franchises and other property,	\$155,810,477 06		I. \$1,498,838 43
Rolling stock	15,830,194 88		
		\$171,640,671 94	
ADVANCES FOR CONSTRUCTION:—			
BLACKSTONE AND LUNENBURG RAIL- ROAD COMPANY		51,184 09	I. 2 00
BIG STONY RAILWAY COMPANY		210,597 87	I. 54,270 41
INTERIOR AND WEST VIRGINIA RAIL- ROAD COMPANY		593,455 17	I. 278,724 66
POCAHONTAS AND WESTERN RAILROAD COMPANY		413,823 44	I. 2,300 00
GUYANDOT AND TUG RIVER RAILROAD COMPANY		216,259 34	I. 10,995 35
WEST VIRGINIA SOUTHWESTERN RAIL- WAY			D. 151,655 07
CARETTA RAILWAY COMPANY			D. 10,386 59
WINSTON-SALEM SOUTH BOUND RAIL- WAY COMPANY		105,834 66	I. 105,834 66
EQUIPMENT LEASED UNDER TRUST AGREEMENTS, LESS AMOUNTS PAID OUT OF INCOME		12,876,585 01	D. 1,600,000 00
COMPANY'S SECURITIES OWNED:—			
Adjustment preferred stock	\$8,300 00		
Common stock	1,530,800 00		
First consolidated mortgage bonds	13,000 00		
Divisional first lien and general mort- gage bonds			D. 10,000,000 00
		1,552,100 00	
EQUIPMENT TRUST CERTIFICATES OWNED		3,200,000 00	D. 400,000 00
INVESTMENTS IN OTHER COMPANIES		3,872,314 59	I. 10,576 54
ACCOUNTS RECEIVABLE:—			
Station agents	\$563,639 15		D. 3,379 20
Traffic balances	942,492 17		I. 279,091 00
United States Government	24,651 08		D. 47,613 88
Individuals and Companies	884,960 14		I. 61,306 43
Norfolk & Western Railway Company 5% Two-Year Collateral Notes Pur- chased (to be delivered to Trustee)	246,000 00		I. 246,000 00
		2,661,742 54	
INSURANCE PREMIUMS PAID IN ADVANCE		57,776 61	I. 23,907 14
MATERIAL AND SUPPLIES		2,576,611 77	D. 201,563 75
POCAHONTAS COAL AND COKE COMPANY —CASH ADVANCES FOR ADDITIONAL REAL ESTATE		1,059,000 00	I. 153,000 00
CASH DEPOSITED IN TRUST FOR RE- DEMPTION OF OUTSTANDING 5% TWO- YEAR COLLATERAL NOTES		6,386,000 00	I. 6,386,000 00
CASH		*7,555,841 76	I. 1,536,489 60
		\$215,029,798 79	D. \$1,787,261 96

* Includes \$4,000,000. of special deposits on interest-bearing short time certificates.

NORFOLK AND WESTERN RAILWAY COMPANY.

General Balance Sheet, June 30th, 1909.

LIABILITIES.

CAPITAL STOCK :—		Comparison with June 30th, 1908.
Adjustment preferred	\$23,000,000 00	
Common	66,000,000 00	
FUNDED DEBT :—		\$89,000,000 00
South Side Railroad Company consolidated mortgage bonds	\$1,000 00	
Virginia and Tennessee Railroad Company enlarged mortgage bonds	5,000 00	
Norfolk and Western Railroad Co. : General mortgage 6 per cent. bonds	7,283,000 00	
New River Division first mortgage 6 per cent. bonds	2,000,000 00	
Improvement and Extension mortgage 6 per cent. bonds	5,000,000 00	
Scioto Valley and New England R. R. Co. first mortgage 4 per cent. bonds	5,000,000 00	
Columbus Connecting and Terminal R. R. Co. 5 per cent. mortgage bonds	600,000 00	
Norfolk and Western Railway Co. : First consolidated mortgage 4 per cent. bonds	40,400,500 00	
Divisional first lien and general mortgage 4 per cent. bonds	23,000,000 00	
Convertible 10-25 year 4 per cent. bonds	14,576,000 00	
	97,865,500 00	
OUTSTANDING EQUIPMENT TRUST CERTIFICATES FOR LEASED EQUIPMENT.	11,900,000 00	D. \$2,000,000 00
NORFOLK AND WESTERN RAILWAY CO. 5 PER CENT. TWO-YEAR COLLATERAL NOTES	6,386,000 00	D. 1,114,000 00
INTEREST ON FUNDED DEBT, EQUIPMENT TRUST CERTIFICATES AND COLLATERAL NOTES ACCRUED BUT NOT MATURED	842,458 33	D. 343,766 67
LYNCHBURG BELT LINE AND CONNECTING RAILWAY CO. CONSTRUCTION	209,310 77	D. 20,284 92
ACCOUNTS PAYABLE :—		
Pay rolls	\$1,027,707 38	I. 205,113 88
Audited vouchers	1,304,842 68	I. 674,600 48
Traffic balances	66,905 90	I. 19,179 05
Individuals and companies	688,207 39	I. 378,918 03
	3,147,663 35	
DIVIDEND NO. 25 ON ADJUSTMENT PREFERRED SHARES PAYABLE AUGUST 18TH, 1909	459,834 00	I. 459,834 00
TAXES ACCRUED	497,004 72	I. 7,144 80
RESERVES :—		
Equipment replacements	222,673 23	I. 222,673 23
Betterments		D. 283,254 45
PROFIT AND LOSS	4,499,354 39	I. 26,582 53
	\$215,029,798 79	D. \$1,767,281 95

Table No. 3.
*Analysis of Earnings and Expenses of the Norfolk and Western Railway Company for the
 Year ending June 30th, 1909.*

	FREIGHT ACCOUNT.			PASSENGER ACCOUNT.			Total Amount.
	Amount.	Rate in Cents. Per Ton per Mile.	Per Train per Mile.	Amount.	Rate in Cents. Per Pass'r per Mile.	Per Train per Mile.	
Earnings from freight	\$24,710,591 12	.460	283 20				\$24,710,591 12
" " passengers				\$3,642,837 04	2.127	96.79	3,642,837 04
" " express				426,047 36	.249	11.32	426,047 36
" " U. S. mail				294,452 54	.172	7.82	294,452 54
" " miscellaneous sources	170,729 36	.003	1.96	82,444 24	.048	2.19	253,173 60
Total gross earnings	\$24,881,320 48	.463	285.16	\$4,445,781 18	2.596	118.12	\$29,327,101 66
Expenses (operating) :—							
Maintenance of way and structures	\$2,672,956 78	.050	30.63	\$658,931 69	.385	17.51	\$3,331,888 47
" " equipment	4,370,722 83	.081	50.09	548,711 91	.320	14.58	4,919,434 74
Traffic expenses	376,038 83	.007	4.31	111,067 22	.065	2.95	487,106 05
Conducting transportation	6,890,293 87	.128	78.97	1,456,698 07	.850	38.70	8,346,991 94
General expenses	528,651 28	.010	6.06	115,683 95	.068	3.07	644,335 23
Total expenses	\$14,838,663 59	.276	170.06	\$2,891,092 84	1.688	76.81	\$17,729,756 43
Net earnings	\$10,042,656 89	.187	115.10	\$1,554,688 34	.908	41.31	\$11,597,345 23
Ratio of expenses to earnings	59.64 per cent.			65.03 per cent.			60.46 per cent.
Total mileage of revenue trains	8,725,516 miles.			3,763,747 miles.			
Total lading of revenue trains	20,049,203 tons.			4,919,585 passengers.			
Total freight or passenger mileage	5,377,020,950 tons one mile.			171,270,331 passengers one mile			
Average haul of freight or passenger	268.16 miles per ton.			34.81 miles per passenger.			

* Includes \$139,450.50, collected in the preceding year, as explained on pages 25 and 26.

Table No. 6.
General Summary of Freight Transportation on the Norfolk and Western Railway for the year
ending June 30th, 1909.

POINTS FROM AND TO.	Local or Through Business.	TOTALS.			Average Distance Carried.
		Tons Carried.	Tons One Mile.	Earnings.	
Local to local	Local	4 071,592	567,344,956	\$4,392,008 15	139.3
Local to foreign	"	12,291,055	3,741,131,245	13,907,013 21	.370
Foreign to local	"	1,802,751	410,926,979	3,072,112 44	304.4
Total local business		18,165,398	4,719,406,180	\$21,371,133 80	227.9
Foreign to foreign	Through	1,883,805	657,614,770	3,339,457 32	259.8
Grand total		20,049,203	5,377,020,950	\$24,710,591 12	349.1
				460	268.2

General Summary of Passenger Transportation on the Norfolk and Western Railway for the year
ending June 30th, 1909.

POINTS FROM AND TO.	Local or Through Business.	TOTALS.			Average Passenger per Mile. (Cents.)
		Passengers Carried.	Passengers One Mile.	Earnings.	
Local to local	Local	4,611,602	127,786,281	\$2,777,452 74	27.7
Local to foreign	"	130,860	16,743,651	329,622 99	128.0
Foreign to local	"	134,221	17,481,912	340,191 99	130.2
Total local business		4,876,683	162,011,844	\$3,447,267 72	33.2
Foreign to foreign	Through	42,852	9,258,487	195,569 32	216.1
Grand total		4,919,535	171,270,331	\$3,642,837 04	34.8
				2,127	

* Includes \$129,455.20, collected in the previous year, as explained on pages 25 and 26.

Table No. 7.

Classification of Freight carried on the Norfolk and Western Railway for the year ending June 30th, 1909, Compared with same period previous year (net tons).

CLASSES.	1908-1909.	1907-1908.	Inc. or Dec. in 1908-1909.	
			Increase.	Decrease.
PRODUCTS OF AGRICULTURE.				
Grain	295,956	337,425		41,469
Flour	160,015	155,863	4,152	
Other mill products	99,895	105,773		5,878
Hay	133,059	130,185	2,874	
Tobacco	97,345	91,628	5,717	
Cotton	43,283	24,308	18,975	
Fruit and vegetables	123,478	137,432		13,954
Peanuts	32,464	36,770		4,306
Other products of agriculture	15,918	15,254	664	
PRODUCTS OF FORESTS.				
Lumber	1,523,518	1,540,492		16,974
Cord wood	37,429	99,386		61,957
Other products of forests	172,290	179,535		7,245
PRODUCTS OF ANIMALS.				
Live stock	64,873	64,314	559	
Dressed meats	18,534	17,049	1,485	
Other packing-house products	51,705	63,304		11,599
Poultry, game, and fish	3,990	1,862	2,128	
Wool	6,576	3,083	3,493	
Hides and leather	36,056	35,481	575	
Other products of animals	5,541	1,550	3,991	
PRODUCTS OF MINES.				
Anthracite coal	21,789	36,918		15,129
Bituminous coal	10,956,771	9,683,050	1,273,721	
Coke	2,260,827	2,147,010	113,817	
Ores	692,488	688,560	3,928	
Stone, sand and other like articles	439,286	283,869	155,417	
Limestone	215,883	200,639	15,244	
Other products of mines	79,377	172,311		92,934
MANUFACTURES.				
Petroleum	48,348	57,576		9,228
Sugar	104,314	73,425	30,889	
Naval stores	349	766		417
Iron—pig and bloom	333,762	315,885	17,877	
Iron and steel rails	51,199	66,106		14,907
Other castings and machinery	194,799	156,597	36,112	
Bar and sheet metal	123,488	116,663	6,825	
Cement, brick and lime	429,441	403,005	26,436	
Fertilizer	119,416	113,991	5,425	
Agricultural implements	25,672	31,887		6,215
Wagons, carriages, tools, etc.	13,366	14,352		986
Wines, liquors, and beers	33,410	38,012		4,602
Household goods and furniture	49,540	51,433		1,893
Other manufactures	632,699	526,790	105,909	
Merchandise	170,079	225,354		55,275
Miscellaneous: Other commodities not mentioned above	131,065	161,367		30,302
Total tonnage	20,049,203	18,608,180	1,836,273	395,280
Net inc. for year ending June 30th, 1909.			1,441,013	

Exhibit J. H. 6 No. 6.

7

GENERAL INCOME ACCOUNT

For the Year Ending June 30th, 1910, and Comparison with Previous Year.

OPERATING REVENUES	1910.	1910.	1909.	Increase or Decrease.
From freight	\$30,037,796 22		\$24,710,591 12	I. \$5,327,205 10
" passengers	3,924,889 67		3,642,837 04	I. 282,052 63
" mail	338,449 10		294,452 54	I. 43,996 56
" express	461,855 25		426,047 36	I. 35,807 89
" miscellaneous	301,080 18		253,173 60	I. 47,906 58
TOTAL OPERATING REVENUES		\$35,063,870 42	\$29,327,101 66	I. \$5,736,768 76
OPERATING EXPENSES.				
Maintenance of way and structures	\$3,752,045 16		\$3,331,888 47	I. \$420,156 69
Maintenance of equipment	5,951,907 15		4,919,434 74	I. 1,032,472 41
Traffic expenses	551,806 15		487,106 05	I. 64,700 10
Conducting transportation, General expenses	10,069,726 22		8,346,991 94	I. 1,722,734 26
	721,275 01		644,335 23	I. 76,939 78
TOTAL OPERATING EXPENSES		21,046,759 69	\$17,729,756 43	I. \$3,317,003 26
NET OPERATING REVENUE		\$14,017,110 73	\$11,597,345 23	I. \$2,419,765 50
To which add:—				
Interest, General Account,	\$534,121 23		\$459,474 57	I. \$74,646 66
Rents	57,148 85		54,373 03	I. 2,773 82
Hire of equipment	554,938 54		467,264 63	I. 87,673 91
		1,146,208 62	981,112 23	I. \$165,094 39
TOTAL INCOME		\$15,163,317 35	\$12,578,457 46	I. \$2,584,859 89
From which deduct:—				
Interest on funded debt	\$4,179,530 00		\$3,985,520 00	I. \$194,010 00
Interest on Equipment Trust obligations	395,555 56		378,666 66	I. 16,888 90
Interest on 2-year 5 per cent. Collateral Gold Notes	206,154 37		379,045 63	D. 172,891 26
Taxes	1,118,964 59		1,008,800 00	I. 110,164 59
Rents of tracks, yards, terminals and other property,	122,237 96		152,818 96	D. 30,579 00
Miscellaneous	97,709 72		8,175 33	I. 89,534 39
		6,120,152 20	\$5,913,024 56	I. \$207,127 62
NET INCOME		\$9,043,165 15	\$6,665,432 88	I. \$2,377,732 27
Deduct expenditures to maintain earning power and offset obsolescence		3,573,598 32	1,730,580 35	I. 1,843,017 97
Balance		\$5,469,566 83	\$4,934,852 53	I. \$534,714 30
From this balance for the year ending June 30th, 1910				\$5,469,566 83
The following amounts have been deducted:—				
Payments to Pocahontas Coal and Coke Company on account of deficiency of sinking fund and interest on Norfolk and Western-Pocahontas Joint Bonds			\$138,000 00	
Cash dividends on Capital Stock:—				
Adjustment Preferred Stock, 4 per cent.			919,668 00	
Common Stock, 3 per cent.			3,294,842 50	
				4,352,510 50
Amount carried to Profit and Loss for the year				\$1,117,056 33
Amount to credit of Profit and Loss, June 30th, 1909				4,499,354 39
Total				\$5,616,410 72
Discount, commission and premium on securities sold—balance				41,878 08
Balance to credit of Profit and Loss, June 30th, 1910				\$5,574,532 64

296 Following is a comparative table of average results for two years:

	1909-10.	1908-09.
Total Operating Revenues per mile of road.	\$18,028	\$15,168
Net Operating Revenue per mile of road..	7,207	5,957
Ratio of Expenses to Operating Revenues..	60.02%	60.72%
Ratio of Taxes to Operating Revenues....	3.19%	3.46%

Capital Stock.

The authorized capital stock of the Company is \$100,000,000 common stock and \$23,000,000 adjustment preferred stock. The outstanding capital stock at the close of the fiscal year consisted of—

688,960 shares of common stock.....	\$68,896,000
230,000 shares of adjustment preferred stock.....	23,000,000
Total	<u>\$91,896,000</u>

of which there was in the treasury \$8,300 of adjustment preferred stock. The increase in the outstanding common stock was caused by the issue of 28,960 shares in exchange for \$2,896,000 of the Company's Convertible 10-25 year 4 per cent. gold bonds surrendered for conversion.

A favorable opportunity having arisen in December, 1909, the Company sold at a price slightly above par the 15,308 shares of its common stock held in the treasury since 1897.

II

ROAD AND EQUIPMENT EXPENDITURES.

The expenditures for road and equipment summarized below aggregated \$13,184,434.78, all of which, in accordance with the order of the Interstate Commerce Commission, has been charged to your Company's Property Investment accounts. Of this sum \$2,573,598.32 consists of expenditures which, in the judgment of your Board of Directors, were required to offset obsolescence and depreciation, due to changing conditions, and were necessary to maintain the earning capacity and preserve the value of the Company's property, and, therefore, should not be capitalized. The payment of \$3,573,598.32 from income therefore includes that amount and also for the same reason one-half, i. e., \$1,000,000, of the principal of Equipment Trust obligations paid during the year. The resulting net property investment for the year was \$10,610,836.46.

	Net Property Investment.	Payable from Income.	Total.
Branches and extensions	\$3,299,643 21		\$3,299,643 21
Right of way and station grounds	253,797 41	\$166,202 23	419,999 64
Widening cuts and fills		8,833 91	8,833 91
Protection of banks		35,228 87	35,228 87
Grade revision and changes of line	5,691 67	30,165 22	35,856 89
Tunnel improvements		13,514 07	13,514 07
Bridges, trestles and culverts		87,413 75	87,413 75
Increased weight of rail		48,776 67	48,776 67
Improved frogs and switches		1,226 91	1,226 91
Track fastenings and other ma- terial		16,574 68	16,574 68
Additional main tracks	1,557,459 24	1,184,905 18	2,742,364 42
Sidings and spur tracks	167,467 08	21,376 48	192,279 82
Terminal yards	486,552 62	27,627 58	510,743 94
Fencing right of way		23,690 17	23,690 17
Track elevation, elimination of grade crossings, etc.		2,870 11	2,870 11
Interlocking apparatus		37,736 30	37,736 30
Block and other signal apparatus	Cr 5 40	455,427 07	455,421 67
Telegraph and telephone lines		89,809 10	89,809 10
Station buildings and fixtures	100,772 05	39,405 04	140,177 09
Shops, enginehouses and turn- tables	65,388 96	13,082 78	78,471 76
Shop machinery and tools		148,199 05	148,199 05
Water and fuel stations	22,893 29	101,740 14	124,633 43
Grain elevators and storage warehouses	5,093 66		5,093 66
Dock and wharf property	302 03		302 03
Miscellaneous structures	15,250 41	19,793 01	35,043 42
Reconstruction of roads pur- chased	Cr. 10,859 85		Cr. 10,859 85
Equipment	4,641,390 06		4,641,390 06
	\$10,610,836 46	\$2,573,598 32	\$13,184,434 78
Add Principal of Equipment Trust obligations		1,000,000 00	1,000,000 00
Total	\$10,610,836 46	\$3,573,598 32	\$14,184,434 78

Advances for construction purposes were made as follows:—

Guyandot and Tug River Railroad	\$2,783 38
" " " " % Barker and Clarks Gap Railroad	136 00
" " " " % Clear Fork and Oceana Railroad	30 00
Big Stony Railway	151 134 94

Traffic.

As compared with the preceding year, the number of passengers carried increased 10,573, or 0.2 per cent.; the average haul of passengers increased 1.92 miles.

The total passenger revenue increased \$282,052.63, or 7.7 per cent.; the average rate per passenger per mile increased 0.041 cents.

Tons of freight carried increased 5,333,326 tons, or 26.8 per cent.; the average haul of freight decreased 3.66 miles.

The total freight revenue increased \$5,327,205.10, or 21.6 per cent.; the average rate per ton per mile decreased 0.013 cents.

The freight train mileage increased 1,853,025 miles, or 21.2 per cent.; the average tons per train mile increased 19 tons, or 3.1 per cent.

The coal shipments were 13,999,516 tons, an increase of 3,020,956 tons, or 27.5 per cent.

The lumber shipments were 1,674,981 tons, an increase of 151,463 tons, or 9.9 per cent.

The shipments of other low class commodities connected with the iron and steel industries were as follows:—

Coke shipments: 2,969,476 tons, an increase of 708,649 tons, or 31.3 per cent.

Ore shipments: 1,018,252 tons, an increase of 325,764 tons, or 47.0 per cent.

Pig and bloom iron shipments: 716,951 tons, an increase of 383,189 tons, or 114.8 per cent.

The following statement gives the passenger and freight statistics for the years 1910 and 1909:—

TRAFFIC AND MILEAGE STATISTICS.

FREIGHT TRAFFIC:—

	1909-1910.	1908-1909.	Increase or Decrease.	Per Cent
Tons of freight carried.....	25,412,529	20,049,203	I. 5,363,326	26.8
Tons carried one mile.....	6,722,495,887	5,377,020,950	I. 1,345,474,937	25.0
" " per mile of road.....	3,456,296	2,793,258	I. 663,038	23.7
Average distance carried per ton (miles).....	264.53	268.19	D. 3.66	1.4
Total revenue from freight.....	\$30,037,796 22	\$24,710,591 12	I. \$5,327,205 10	21.6
Average revenue per ton of freight (cents).....	118.20	123.25	D. 5.05	4.1
" " per mile (cents).....	0.447	0.460	D. 0.013	2.8
Total freight revenue, all sources.....	\$30,348,146 22	\$24,881,320 48	I. \$5,466,825 74	21.6
Freight revenue per mile of road.....	\$15,551 75	\$12,925 36	I. \$2,626 39	20.3
" " train mile (cents).....	285.94	285.16	I. 0.78	0.3

PASSENGER TRAFFIC:—

Passengers carried.....	4,930,108	4,919,535	I. 10,573	0.2
" " one mile.....	181,068,855	171,270,831	I. 9,798,024	5.7
" " per mile of road.....	93,095	88,972	I. 4,123	4.6
Average distance carried per passenger (miles).....	36.73	34.81	I. 1.92	5.5
Total revenue from passengers.....	\$3,924,889 67	\$3,642,837 04	I. \$282,052 63	7.7
Average revenue per passenger (cents).....	79.61	74.05	I. 5.56	7.5
Average revenue per passenger per mile (cents).....	2.168	2.127	I. 0.041	1.9
Total passenger revenue, all sources.....	\$4,815,724 20	\$4,445,781 18	I. \$369,943 02	8.3
Passenger revenue per mile of road.....	\$2,475 95	\$2,309 50	I. \$166 45	7.2
" " train mile (cents).....	119.88	118.12	I. 1.76	1.5

* Includes \$129,453 30, collected in the preceding year, as explained on pages 25 and 26 of the 13th Annual Report.

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TRAFFIC AND MILEAGE STATISTICS.	1909-1910.	1908-1909.	Increase or Decrease.	Per Cent.
TRAIN MILEAGE:—				
Revenue trains: freight.....	10,401,187	8,548,948	I. 1,852,239	21.7
" " passenger.....	3,839,804	3,587,179	I. 252,625	7.0
" " mixed.....	177,354	176,568	I. 786	0.4
" " special.....	6,136	4,872	I. 1,264	25.9
Non-revenue trains.....	775,896	475,845	I. 300,051	63.1
All trains.....	15,200,377	12,793,367	I. 2,407,010	18.8
LOCOMOTIVE MILEAGE:—				
Revenue trains: freight.....	15,139,857	12,401,584	I. 2,737,773	22.1
" " passenger.....	4,024,128	3,754,919	I. 269,209	7.2
" " mixed.....	191,574	184,092	I. 7,482	4.1
" " special.....	8,047	6,485	I. 1,562	24.1
Switching locomotives.....	2,916,956	2,492,618	I. 424,338	17.0
Non-revenue trains.....	809,157	536,632	I. 272,525	50.8
All locomotives.....	23,089,219	19,376,330	I. 3,712,889	19.2
CAR MILEAGE:—				
Mileage of loaded freight cars:				
North and East.....	110,918,298	98,750,697	I. 12,167,601	12.3
South and West.....	119,055,094	98,128,217	I. 20,926,877	21.3
Mileage of empty freight cars:				
North and East.....	75,552,999	60,460,159	I. 15,092,840	25.0
South and West.....	63,445,985	63,008,681	I. 437,304	0.7
Mileage of caboose cars:				
North and East.....	5,295,093	4,307,422	I. 987,671	22.9
South and West.....	5,152,489	4,237,093	I. 915,396	21.6
Average number freight cars per train mile excluding caboose...	34.88	36.14	D. 1.26	3.5
Average number loaded freight cars per train mile.....	21.74	21.99	D. .25	1.1
Average number empty freight cars per train mile excluding caboose.....	13.14	14.15	D. 1.01	7.1
Average number tons freight per train mile.....	635	616	I. 19	3.1
Average number tons freight per loaded car mile.....	29.23	28.02	I. 1.21	4.3
Mileage of passenger cars.....	21,391,488	19,709,897	I. 1,681,591	8.5
Average number passenger cars per train mile.....	5.33	5.24	I. .09	1.7
Average number of passengers per train mile.....	45	46	D. 1	2.2
Mileage of cars in special service	81,449	64,891	I. 16,558	25.5
Average mileage operated during year.....	1,945	1,925	I. 20	1.0

Summary of Passenger and Freight Car Mileage.

	Year ending June 30th.	
	1910.	1909.
Mileage of Norfolk and Western freight cars on Norfolk and Western Railway (including caboose).	230,488,253	228,816,345
Mileage of foreign freight cars on Norfolk and Western Railway	148,931,705	95,075,924
Percentage of freight car mileage made by foreign cars	39.25	29.35
Mileage of Norfolk and Western box cars on Norfolk and Western Railway	21,675,243	39,001,480
Average number of box cars in service on Norfolk and Western Railway	2,030	4,126
Average daily mileage of box cars on Norfolk and Western Railway	29.25	25.90
Mileage of Norfolk and Western coal cars on Norfolk and Western Railway	168,509,443	153,051,982
Average number of coal cars in service on Norfolk and Western Railway	14,035	15,288
Average daily mileage of coal cars on Norfolk and Western Railway	32.89	27.48
Total Norfolk and Western freight car mileage on Norfolk and Western Railway in transportation of freight	221,782,642	221,004,127
Average number of Norfolk and Western freight cars in service	34,406	34,006
Average number of Norfolk and Western freight cars in service on Norfolk and Western Railway	19,097	23,065
Average daily mileage on Norfolk and Western Railway	30.52	26.25
Total passenger car mileage on Norfolk and Western Railway	21,391,488	19,709,887
Mileage of Norfolk and Western passenger cars on Norfolk and Western Railway	16,114,735	15,059,154
Mileage of Norfolk and Western passenger cars on foreign lines	1,262,353	1,107,312
Total mileage made by Norfolk and Western passenger cars	17,377,088	16,166,476
Mileage of foreign passenger cars (including Pullman) on Norfolk and Western Railway	5,276,753	4,650,743
Percentage of passenger car mileage made by foreign cars	24.67	23.60

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It will be observed that under the order of the Interstate Commerce Commission the Company is required to show on its general balance sheet as a separate item under "Appropriated Surplus" the aggregate amount expended by it from its income for "Additions to Property since June 30th, 1907, through Income," viz., \$7,868,827.34, which includes the \$3,573,598.32 expended during the present year. It is the conviction of your Board that this amount like the aggregate credits to "Reserve for Accrued Depreciation" of equipment (see general balance sheet) should be deducted from Property Investment in Road and Equipment in order to show correctly the net capitalizable cost of road and equipment. Such disposition of this item, however, is not permitted under the order of the Interstate Commerce Commission now in force, which requires the amount to be set up as a separate liability account. It is, therefore, entered on both sides of the general balance sheet, being included in the property investment in "Road and Equipment" as an asset.

NORFOLK AND WESTERN RAILWAY COMPANY.

General Balance Sheet, June 30th, 1910.

ASSETS.

		Compare with June 30th, 1909.
PROPERTY INVESTMENT:—		
Road and Equipment:—		
Investment to June 30, 1907:		
Road	\$151,440,746 22	
Equipment	24,383,021 25	
	\$175,823,767 47	
Investment since June 30, 1907:		
Road	\$15,978,992 78	I. \$8,542,118 42
Equipment	11,823,425 41	I. 4,641,390 06
General Expenditures	5,088 80	I. 926 30
	27,807,506 99	(See Note.)
	\$203,631,274 46	
Reserve for Accrued Depreciation (of Equipment), Credit	8,132,589 53	I. 1,196,089 79
Securities:—		\$200,496,740 93
Securities of Proprietary, Affiliated and Controlled Companies—Pledged. Stocks.		80,466 80
Securities of Proprietary, Affiliated and Controlled Companies—Unpledged.		
Stocks	\$61,196 33	D. 1,836 67
Funded Debt	61,310 72	D. 2,477,802 84
Other Investments:—		122,509 05
Advances to Proprietary, Affiliated and Controlled Companies for Construction, Equipment and Betterments:		
Blackstone and Lunenburg R. R. Co.		D. 51,184 06
Pocahontas and Western R. R. Co.		D. 413,823 44
Big Stony Railway Co.	\$65,187 98	I. 151,134 94
Guyandot and Tug River Railroad Co.	219,208 72	I. 2,949 38
		1,174,396 70
Miscellaneous Investments:—		
Physical Property	\$338,107 45	I. 167,079 74
Securities—Unpledged	885,538 09	I. 59,772 50
		1,223,645 54
WORKING ASSETS:		
Cash	\$9,198,550 22	I. 5,642,708 46
Securities issued or assumed—Held in Treasury	21,300 00	D. 4,976,800 00
Marketable Securities. Stocks	4,008 00	
Funded Debt	2,996,343 05	I. 2,831,933 06
Loans and Bills Receivable	4,500,612 74	I. 499,448 50
Traffic and Car Service Balances due from Other Companies	1,210,234 71	I. 267,742 54
Net Balance due from Agents and Con- ductors	771,322 60	I. 163,314 80
Miscellaneous Accounts Receivable	705,426 05	I. 78,497 14
Materials and Supplies	3,862,928 93	I. 1,286,017 18
Other Working Assets	388 46	D. 978 56
		23,271,114 76
DEFERRED DEBIT ITEMS:		
Advances { Temporary Advances to Proprietary, Affiliated and Controlled Companies	\$1,377,456 47	I. 187,146 81
Working Funds	14,925 27	I. 396 31
Rents and Insurance paid in Advance	76,774 41	I. 18,967 80
Cash and Securities in Sinking and Redemptions Funds	11,984 23	D. 6,385,000 00
Other Deferred Debit Items	87,462 94	D. 17,789 80
		1,568,603 32
	\$227,939,477 10	I. \$8,950,319 38

NOTE.—This sum includes the \$7,868,827.34 of "Appropriated Surplus" to which the note on the Liabilities side of the General Balance Sheet refers.

NORFOLK AND WESTERN RAILWAY COMPANY.

General Balance Sheet, June 30th, 1910.

LIABILITIES.

			Comparison with June 30th, 1909.
CAPITAL STOCK:—			
Adjustment Preferred	\$23,000,000 00		
Common	68,896,000 00	\$91,896,000 00	I. \$2,890,000 00
FUNDED DEBT:—			
Mortgage Bonds	\$83,283,500 00		
Plain Bonds, Debentures and Notes	22,673,000 00		I. 1,711,000 00
Equipment Trust Obligations	9,900,000 00	115,856,500 00	D. 2,000,000 00
WORKING LIABILITIES:—			
Traffic and Car Service Balances due to Other Companies	\$112,461 34		I. 45,555 44
Audited Vouchers and Wages Unpaid Vouchers	\$2,762,073 94		I. 1,479,410 07
Pay Rolls	1,336,216 89		I. 308,509 51
	4,098,290 83		
Miscellaneous Accounts Payable	190,906 43		D. 22,853 03
Matured Interest, Dividends and Rents Unpaid	531,263 68		I. 4,722 68
Matured Mortgage Bonded and Secured Debt Unpaid	7,000 00		I. 1,000 00
Other Working Liabilities	1,171 42	4,941,093 70	I. 1,171 42
ACCRUED LIABILITIES NOT DUE:—			
Unmatured Interest Dividends and Rents Payable	\$1,053,885 33		D. 248,427 00
Taxes accrued	538,794 78	1,592,680 11	I. 41,790 06
DEFERRED CREDIT ITEMS:—			
Operating Reserves			D. 833 34
Other Deferred Credit Items		209,863 31	I. 84,497 00
APPROPRIATED SURPLUS:—(See Note.)			
Additions to Property since June 30, 1907, through Income, Road	\$5,725,371 14		I. 2,573,598 32
Equipment	2,143,456 20	7,868,827 34	I. 1,000,000 00
PROFIT AND LOSS:—			
Credit Balance		5,574,532 64	I. 1,075,178 25
		\$227,939,477 10	I. \$8,950,319 38

NOTE.—This sum consists of expenditures since June 30, 1907, which in the judgment of the Board of Directors were required to offset obsolescence and depreciation due to changing conditions and were necessary to maintain the earning capacity and preserve the value of the Company's property and therefore should not be capitalized.

Table No. 3.
*Analysis of Earnings and Expenses of the Norfolk & Western Railway Company for the
 Year ending June 30th, 1910.*

	FREIGHT ACCOUNT.		PASSENGER ACCOUNT.		Total Amount.
	Amount.	Rate in Cents. Per Ton per Mile.	Amount.	Rate in Cents. Per Passenger per Mile.	
Earnings from freight	\$30,037,796 22	.447	\$3,924,889 67	2.168	\$30,037,796 22
" " passengers	" " " "	" " " "	" " " "	97.70	3,924,889 67
" " express	" " " "	" " " "	461,655 25	.255	461,655 25
" " U. S. mail	" " " "	" " " "	338,449 10	.187	338,449 10
" " miscellaneous sources	210,350 00	.003	90,730 18	.050	301,080 18
Total gross earnings	\$30,248,146 22	.450	\$4,815,724 20	2.860	\$35,063,870 42
Expenses (operating):—					
Maintenance of way and structures	\$2,998,235 04	.045	\$753,810 12	.416	\$3,752,045 16
" " equipment	5,261,454 44	.078	690,452 71	.381	5,951,907 15
Traffic expenses	420,910 17	.006	130,895 98	.072	551,806 15
Conducting transportation	8,438,980 74	.125	1,630,735 48	.901	10,069,726 22
General expenses	588,337 36	.009	132,937 65	.074	721,275 01
Total expenses	\$17,707,927 75	.263	\$3,336,831 94	1.844	\$21,046,759 69
Net earnings	\$12,540,218 47	.187	\$1,476,892 26	.816	\$14,017,110 73
Ratio of expenses to earnings	58.54 per cent.		69.33 per cent.		60.02 per cent.
Total mileage of revenue trains	10,578,541 miles.		4,017,158 miles.		" " " "
Total lading of revenue trains	25,412,529 tons.		4,930,108 passengers.		" " " "
Total freight and passenger mileage	6,722,495,887 tons one mile.		181,068,855 passengers one mile.		" " " "
Average haul of freight or passenger	264.53 miles per ton.		36.73 miles per passenger.		" " " "

General Summary of Freight Transportation on the Norfolk & Western Railway for the year ending June 30th, 1910.

POINTS FROM AND TO.	Local or Through Business.	TOTALS.			Earnings per Ton per Mile. (Cents.)	Average Distance Carried.
		Tons Carried.	Tons One Mile.	Earnings.		
Local to local	Local	4,912,750	708,138,038	\$5,222,023 24	.737	144.1
Local to foreign	"	15,909,620	4,768,761,043	17,363,802 94	.364	299.7
Foreign to local	"	2,478,497	521,235,962	3,698,249 02	.710	210.3
Total local business		23,300,867	5,998,135,043	26,284,075 20	.438	257.4
Foreign to foreign	Through	2,111,662	724,360,844	3,753,721 02	.518	343.0
Grand total		25,412,529	6,722,495,887	30,037,796 22	.447	264.5

General Summary of Passenger Transportation on the Norfolk & Western Railway for the year ending June 30th, 1910.

POINTS FROM AND TO.	Local or Through Business.	TOTALS.			Earnings per Passenger per Mile. (Cents.)	Average Distance Carried.
		Passengers Carried.	Passengers One Mile.	Earnings.		
Local to local	Local	4,582,974	132,766,365	2,951,428 66	2.223	29.0
Local to foreign	"	150,309	19,012,256	370,416 75	1.948	126.5
Foreign to local	"	147,735	19,338,609	387,970 54	2.006	130.9
Total local business		4,881,018	171,117,230	3,706,815 95	2.168	35.1
Foreign to foreign	Through	49,090	9,951,625	215,073 72	2.161	202.7
Grand total		4,930,108	181,068,855	3,924,889 67	2.168	36.7

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Table No. 7.

Classification of Freight carried on the Norfolk & Western Railway for the year ending June 30th, 1910, Compared with same period previous year (net tons).

CLASSES.	1909-1910.	1908-1909.	Inc. or Dec. in 1909-1910	
			Increase.	Decrease.
PRODUCTS OF AGRICULTURE.				
Grain	336,001	295,956	40,045	
Flour	155,569	160,015		4,446
Other mill products	85,617	99,895		14,278
Hay	124,453	133,059		8,606
Tobacco	120,477	97,345	23,132	
Cotton	31,550	43,283		11,733
Fruit and vegetables	173,221	123,478	49,743	
Peanuts	40,224	32,464	7,760	
Other products of agriculture	27,342	15,918	11,424	
PRODUCTS OF FORESTS.				
Lumber	1,674,981	1,523,518	151,463	
Cord wood	45,023	37,429	7,594	
Other products of forests	188,722	172,290	16,432	
PRODUCTS OF ANIMALS.				
Live stock	70,966	64,873	6,093	
Dressed meats	12,648	18,534		5,886
Other packing-house products	47,682	51,705		4,023
Poultry, game, and fish	13,381	3,990	9,391	
Wool	5,393	6,576		1,183
Hides and leather	39,321	36,056	3,265	
Other products of animals	6,758	5,541	1,217	
PRODUCTS OF MINES.				
Anthracite coal	13,462	21,789		8,327
Bituminous coal	13,986,064	10,956,771	3,029,283	
Coke	2,969,476	2,260,827	708,649	
Ores	1,018,252	692,488	325,764	
Stone, sand and other like articles	652,256	439,286	212,970	
Limestone	264,898	215,883	49,015	
Other products of mines	84,816	79,377	5,439	
MANUFACTURES.				
Petroleum, and other oils	48,603	48,348	255	
Sugar	99,139	104,314		5,175
Naval stores	9,201	349	8,852	
Iron—pig and bloom	716,951	333,762	383,189	
Iron and steel rails	54,374	51,199	3,175	
Other castings and machinery	203,156	194,709	8,447	
Bar and sheet metal	151,430	123,488	27,942	
Cement, brick and lime	489,614	429,441	60,173	
Fertilizer	120,401	119,416	985	
Agricultural implements	40,205	25,672	14,533	
Wagons, carriages, tools, etc.	21,133	13,396	7,737	
Wines, liquors, and beers	37,323	33,410	3,913	
Household goods and furniture	80,344	49,540	30,804	
Other manufactures	826,716	632,699	194,017	
Merchandise	198,948	170,079	28,869	
Miscellaneous: Other commodities not mentioned above	126,448	131,065		4,617
Total tonnage	25,412,529	20,049,203	5,431,600	68,274
Net inc. for year ending June 30th, 1910,			5,363,323	

(Here follow Defendant's Exhibits No. 7 and No. 8, marked pages 309-311.)

Defendants Exhibit J.W.C. #7.

Annual Report N.W. Ry Co. June 30th 1911.

Page 71 part of page 8.

GENERAL INCOME ACCOUNT

For the Year Ending June 30th, 1911, and Comparison with Previous Year.

	1911.	1910.	1910.	Increase or Decrease.
OPERATING REVENUES				
From freight	\$30,115,483 01		\$30,037,796 22	I. \$77,686 79
" passengers	4,184,246 01		3,924,889 67	I. 259,356 34
" mail	339,705 15		338,449 10	I. 1,256 05
" express	503,402 06		481,655 25	I. 41,746 81
" miscellaneous	414,686 24		301,080 18	I. 113,606 06
TOTAL OPERATING REVENUES	\$35,557,522 47		\$35,083,870 42	I. \$493,652 05
OPERATING EXPENSES.				
Maintenance of way and structures	\$4,328,717 35		\$3,752,045 16	I. \$576,672 19
Maintenance of equipment	6,638,841 52		5,951,907 15	I. 686,934 37
Traffic	586,715 55		551,906 15	I. 34,809 40
Transportation	10,672,624 23		10,089,726 22	I. 602,898 01
General	731,381 40		721,275 01	I. 10,106 39
TOTAL OPERATING EXPENSES		22,958,280 05	\$21,046,759 69	I. \$1,911,520 36
NET OPERATING REVENUE	\$12,599,242 42		\$14,017,110 73	D. \$1,417,868 31
TAXES		1,320,000 00	1,118,964 59	I. 201,035 41
OPERATING INCOME		\$11,279,242 42	\$12,898,146 14	D. \$1,618,903 72
To which add:—				
Interest, General Account,	\$394,343 23		\$534,121 23	D. \$139,778 00
Rents	49,678 81		57,146 85	D. 7,468 04
Hire of equipment	858,424 11		554,938 54	I. 303,485 57
		1,302,446 15	\$1,146,206 62	I. \$156,239 53
GROSS INCOME		\$12,581,688 57	\$14,044,352 76	D. \$1,462,664 19
From which deduct:—				
Interest on funded debt	\$4,435,200 00		\$4,179,530 00	I. \$255,670 00
Interest on Equipment Trust obligations	357,686 67		395,555 56	D. 37,868 89
Interest on 2-year Notes			206,154 37	D. 206,154 37
Rents of tracks, yards, etc.	6,660 34		122,237 96	D. 115,577 62
Miscellaneous	41,782 56		97,709 72	D. 55,927 16
		4,841,309 57	\$5,001,187 61	D. \$159,878 04
NET INCOME	\$7,740,379 00		\$9,043,165 15	D. \$1,302,786 15
Deduct expenditures to maintain earning power and offset obsolescence		2,597,108 57	3,573,598 32	D. 976,489 75
Balance	\$5,143,270 43		\$5,469,566 83	D. \$326,296 40

From this balance for the year ending June 30th, 1911 \$5,143,270 43

The following amounts have been deducted:—

Payments to Pocahontas Coal and Coke Company on account of deficiency of sinking fund and interest on Nor- folk and Western-Pocahontas Joint Bonds	\$148,000 00
Cash dividends on Capital Stock:	
Adjustment Preferred Stock, 4 per cent.	919,668 00
Common Stock, 5 per cent.	3,499,137 50
	4,566,805 50

Amount carried to Profit and Loss for the year \$576,464 93

Amount to credit of Profit and Loss, June 30th, 1910 5,574,532 64

Total \$6,150,997 57

Add premium on securities 3,200 00

Balance to credit of Profit and Loss, June 30th, 1911 \$6,154,197 57

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309a Following is a comparative table of average results for three years:

	1910-11.	1909-10.	1908-09.
Total Operating Revenues per mile of road.....	\$18,031	\$18,028	\$15,168
Net Operating Revenue per mile of road.....	6,389	7,207	5,957
Ratio of Expenses to Operating Revenues.....	64.57%	60.02%	60.72%
Ratio of Taxes to Operating Revenues	3.71%	3.19%	3.46%

Refundable Exhibit J. H. C. No. 8.

Annual Report, Norfolk and Western Railway Company, June 30th, 1912.

INCOME STATEMENT.

FOR THE YEAR ENDING JUNE 30th, 1912, AND COMPARISON WITH PRECEDING YEAR.

	1911-12	1910-11.	INCREASE OR DECREASE.	PER CENT.
RAILWAY OPERATING INCOME:				
Revenue from Transportation:				
Freight.....	\$34,022,572.20	\$30,115,463.01	Inc. \$3,907,009.19	12.97
Passenger.....	4,142,452.22	4,184,246.01	Inc. 138,206.31	3.28
Mail.....	343,253.93	319,705.15	Inc. 3,548.78	1.04
Express.....	\$30,117.89	\$03,402.06	Inc. 26,715.83	5.15
Miscellaneous.....	248,772.16	217,887.70	Inc. 30,884.46	14.17
Total Transportation revenue.....	\$39,487,368.50	\$35,960,723.93	Inc. \$4,126,644.57	11.07
Revenue from operation other than Transportation.....	247,668.55	196,798.54	Inc. 51,070.01	25.95
Total operating revenues.....	\$39,735,237.05	\$36,557,522.47	Inc. \$3,177,714.58	11.75
EXPENSES:				
Maintenance of Way and Structures.....	\$4,816,377.95	\$4,528,717.35	Inc. \$487,660.60	11.27
Maintenance of Equipment.....	7,676,464.10	6,648,841.52	Inc. 1,037,622.58	15.63
Traffic.....	639,935.74	536,715.51	Inc. 103,220.19	9.07
Transportation.....	11,371,799.60	10,672,624.23	Inc. 1,099,175.37	10.30
General.....	764,852.48	731,381.40	Inc. 33,471.08	6.58
Total operating expenses.....	\$25,669,429.87	\$22,958,280.05	Inc. \$2,711,149.82	11.81
Ratio of Expenses to Total Operating Revenues.....	64.60%	64.57%	Inc. .03%	
NET REVENUE—RAIL OPERATIONS:				
OUTSIDE OPERATIONS—Net deficit.....	\$14,065,807.18	\$12,599,242.42	Inc. \$1,466,564.76	11.64
	20,459.50	9,979.86	Inc. 10,479.64	104.51
NET RAILWAY OPERATING REVENUE	\$14,045,397.68	\$12,589,262.76	Inc. \$1,456,135.32	11.57
RAILWAY TAX ACCRUALS	1,410,000.00	1,320,000.00	Inc. 90,000.00	6.82
RAILWAY OPERATING INCOME	\$12,635,397.68	\$11,269,262.56	Inc. \$1,366,135.12	12.12
OTHER INCOME: —Hire of Equipment (balance).....	\$1,081,362.66	\$958,424.11	Inc. \$204,938.55	21.87
Dividend and interest income.....	260,784.29	394,343.23	Dec. 133,558.94	33.87
Miscellaneous income.....	10,094.81	49,680.81	Dec. 10,586.00	21.10
Total other income.....	\$1,362,241.76	\$1,302,448.15	Inc. \$59,793.61	4.67
GROSS INCOME	\$13,998,639.44	\$12,571,710.71	Inc. \$1,426,928.73	11.35
Deductions from Gross Income:				
Miscellaneous rent deductions (balance).....	\$39,125.17	\$6,666.34	Inc. \$32,458.83	355.31
Separately operated properties.....	108,052.86	149,213.15	Dec. 61,160.29	36.14
Interest deductions for Funded Debt:				
Mortgage bonds.....	3,622,340.00	3,622,480.00	Dec. 100.00	
Convertible bonds.....	485,080.00	512,720.00	Dec. 327,640.00	40.51
Equipment Obligations.....	276,377.00	357,666.67	Dec. 81,289.67	22.73
Miscellaneous deductions.....	94,750.00	45,584.25	Inc. 49,165.65	107.86
Total Deductions.....	\$5,618,965.03	\$5,014,324.51	Dec. \$197,159.48	7.92
NET INCOME	\$7,381,674.41	\$7,557,386.20	Inc. \$1,824,208.21	27.48
Dividends on Adjustment Preferred Stock.....	919,668.00	919,668.00		
INCOME BALANCE: —Transferred to Profit and Loss.....	\$8,462,008.41	\$6,637,718.20	Inc. \$1,824,290.21	27.48

The Income and Profit and Loss statements conform to the arrangement prescribed in the order of the Interstate Commerce Commission taking effect July 1st, 1912. The figures of the previous year have been rearranged to facilitate comparison.

PROFIT AND LOSS STATEMENT.

	1911-12	1910-11	INCREASE OR DECREASE	Per Cent.
<i>Credits</i>				
Balance July 1st	\$6,154,197.57	\$5,574,532.64	Inc.	\$579,664.93 10.40
Credit Balance from Income Account for the Year	8,462,006.41	6,637,718.29	Inc.	1,824,288.21 27.48
Premiums on Securities sold		1,700.00	Dec.	1,700.00 00.00
Miscellaneous Credits	6,471.13	25,168.47	Dec.	28,637.34 81.60
Total credits	914,622,675.11	\$12,250,819.31	Inc.	\$2,372,055.80
<i>Charges</i>				
Dividends on Common stock	4,668,437.50	3,499,137.50	Inc.	1,169,300.00 33.42
Appropriations of Surplus for Additions and Betterments	1,372,065.07	2,597,108.57	Dec.	1,225,043.50 47.17
Miscellaneous Debits	1,340.55	175.67	Inc.	1,164.88 663.11
Total charges	\$6,041,843.12	\$6,096,421.74	Dec.	\$54,578.62
Credit balance June 30th	\$8,580,831.99	\$6,154,197.57	Inc.	\$2,426,634.42

The Dividends were as follows:—

Adjustment Preferred Stock:—

No. 35 Payable November 18, 1911, 1	per cent. on \$22,991,700 =	\$229,917.00
No. 34 Payable February 19, 1912, 1	per cent. on 22,991,700 =	229,917.00
No. 33 Payable May 18, 1912, 1	per cent. on 22,991,700 =	229,917.00
No. 36 Payable August 19, 1912, 1	per cent. on 22,991,700 =	229,917.00

Common Stock:—

	4 per cent	\$919,648.00
No. 25 Payable September 18, 1911, 1½	per cent. on \$74,429,000 =	\$919,648.00
No. 26 Payable December 18, 1911, 1½	per cent. on 80,145,000 =	1,202,175.00
No. 27 Payable March 18, 1912, 1½	per cent. on 81,820,000 =	1,227,300.00
No. 28 Payable June 19, 1912, 1½	per cent. on 85,240,000 =	1,278,600.00
	5½ per cent	\$4,668,437.50

It will be noted that the gross operating revenues show a substantial increase. The liberal expenditures which have been made for improvements upon your lines and for heavy engines and freight cars of large capacity have enabled your management to show a practically unchanged ratio of operating expenses to operating revenues, notwithstanding substantial increases in rates of employees' wages. The taxes for the year again show an increase.

The increase in the amount of dividends on Common Stock is due in part to the increase in dividend rate from 5 per cent. to 6 per cent. and in part to the issue of additional shares in exchange for Convertible Bonds surrendered.

Comparison of traffic and revenue figures with those of the previous year shows the following interesting changes:

Number of passengers	increased	331,800		0.81 per cent.
Average haul of passengers	decreased	0.77 miles		2.85 "
Revenue from passenger fares	increased	\$138,306.31		1.78 "
Average rate per passenger per mile	decreased	0.618 cents		0.83 "
Revenue freight earned	increased	3,507,316 tons		13.58 "
Average haul of freight	increased	10.56 miles		4.01 "
Revenue from freight transportation	increased	\$3,907,080.19		12.97 "
Average rate per ton per mile	decreased	.019 cents		4.28 "
Average tons of revenue freight per train mile	increased	49.82 tons		7.75 "
Shipments of coal	increased	4,162,929 tons		28.14 "
Shipments of lumber	decreased	59,794 tons		3.85 "
Shipments of coke	decreased	392,667 tons		30.13 "
Shipments of ore	decreased	108,090 tons		22.52 "
Shipments of pig and iron bloom	increased	62,275 tons		10.71 "

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312 In the Circuit Court of Kanawha County, State of West Va.
In Equity.

NORFOLK & WESTERN RAILWAY COMPANY, a Corporation, Plaintiff,
vs.
WM. G. CONLEY, Attorney General of the State of West Virginia,
et al., Defendants.

Depositions of C. W. Hillman, and others, taken before me, John C. Bond, a Notary Public in and for the County of Kanawha and State of West Virginia, pursuant to agreement between John H. Holt, counsel for the Norfolk & Western Railway Company and William G. Conley, Attorney General, and counsel for defendants, at the office of the Attorney General, at the State House, in the City of Charleston, said County and State, on Monday, the 4th day of March, 1912, between the hours of 9 o'clock, A. M. and 6 o'clock, P. M., to be read as evidence on behalf of the defendants in a certain suit in equity pending in the Circuit Court of Kanawha County, in said State, wherein the Norfolk & Western Railway Company is plaintiff, and Wm. G. Conley, Attorney General for the said State of West Virginia, and others, are defendants:

Present:

Lucian H. Cocke, Esq., and Hon. John H. Holt, Attorneys for Plaintiff.

Wm. G. Conley, Attorney General, for Defendants.

313 Whereupon came C. W. HILLMAN, a witness of lawful age, who being by me first duly sworn, deposes and says as follows:

Direct examination by WM. G. CONLEY:

Q. 1. Give your name, age, residence and business.

A. C. W. Hillman; age, 55; residence, Evanston, Illinois; place of business, Louisville, Kentucky; business, public accountant, as President of The Mutual Audit Company.

Q. 2. How long have you been a public accountant?

A. I have been a public accountant for the last six years.

Q. 3. What experience have you had as a railroad official or in the railroad business in any capacity?

A. I graduated from the Lafayette College, at Easton, Pennsylvania, in 1874 as civil engineer. I did some work on the civil engineering corps for the Cumberland Railroad Company and the Quincy, Alton & St. Louis Railroad Company, which is now a part of the Burlington System. I then entered the employ of the Cumberland Valley Railroad Company as telegraph operator, and served them in various capacities as telegraph agent, agent, scales clerk, car accountant, superintendent's clerk, conductor on passenger trains, conductor on freight trains, the latter two employments being preparatory to my appointment as assistant dispatcher of the Cum-

berland Valley Railroad Company. I was then made dispatcher of the Cumberland Valley Railroad Company. I left the employ of this company in 1880 and entered the employ of the Northern Pacific Railroad Company, in its office in New York City, as their stock and bond clerk. I served all through this office, and in 1887 I was elected assistant treasurer of the Northern Pacific Railroad Company with offices in the City of New York. I then was transferred by them to Chicago, they having leased the Wisconsin Central Lines, the Chicago terminals, which were operated under the title of the Chicago & Northern Pacific Railroad. They having transferred their offices of the then Northern Pacific Express Company to that city, these were under my charge as assistant treasurer, but the treasurer at this time was practically comptroller of the road, and the entire financial management fell into the hands of the assistant treasurer at New York, the assistant treasurer at Chicago and the assistant treasurer at St. Paul, I being one of the three. I left the Northern Pacific Railroad Company in 1895, owing to the receivership and the reorganization of the road and the loss of their Chicago terminals. I entered the employ of the Chicago, Rock Island & Pacific road, first, as a general utility man in the comptroller's office, Mr. J. L. Cramer, and afterwards in charge of the insurance matters of the company, they having an insurance department. The insurance department was then split from the comptroller's office and I was made chief clerk of that department. I left them after a year's service and established myself, after considerable inconvenience, I would call it, as a consulting accountant for the Baker-Vawter Company, who are manufacturers to a large extent, but maintain a large and growing audit department. After a year and a half's service I left them and entered the service of the Indiana Audit Company in charge of their cost department. Shortly after entering their service I found that this company was bankrupt (as they are out of business there is no harm in making this statement in the record), and I then established my own company, the present one, The Mutual Audit Company. At this time we obtained the contract for doing the railroad work for the State of Kentucky, in their contest with the railway companies, in regard to both passenger and freight rates. I have served in this capacity as public accountant in railway matters and also in express matters, the States of Kentucky, North Carolina, Florida, Alabama, Arkansas, Indiana, Illinois, South Dakota, Minnesota, and Ohio, the latter being in the employment, not directly of the State, but of the coal shippers, in the Wheeling & Lake Erie, No. 8 District, the work, however, being directed to be done by the Railroad Commission of the State of Ohio. I served in other cases for the shippers, notably the Norfolk & Western Railway Company, in their Lake Coal rates, for the Hocking Valley Railway Company, in the same rates, and again the shippers in the Wheeling & Lake Erie case, that is, No. 8 District of Ohio, same rates. In some of these states the employment was two or three different times.

Q. 4. Mr. Hillman, you may state whether you have examined

the books of the Norfolk & Western Railway Company, in connection with the litigation instituted by that company against the Attorney General of West Virginia, and others, wherein they seek to have declared null and void the 2-cent passenger act of the Legislature of West Virginia?

A. Yes, sir; I have made an investigation of the books and records of the Norfolk & Western Railway Company in order to testify in that case.

Q. 5. You may state, if you will, the examination made?

A. In making this analysis we have used the Pocahontas and Kenova divisions of the Norfolk & Western road as typical of the entire state passenger traffic, ignoring the small mileage of the Radford division and the Shenandoah division, which are in the State, I believe, about 19 miles of the Radford division, and if my recollection serves me, some 13 miles of the Shenandoah division. The inclusion of these two divisions would to my mind make but little difference in the practical result as to the sufficiency or insufficiency of this rate. I had perhaps better state right here the reasons for

the selection of these two divisions. The division of freight and passenger upon the Pocahontas and Kenova divisions 317 had already been made by me for the purpose of the Lake Coal rates, and as the appropriation of West Virginia was limited, they did not desire to go into any more expense than was absolutely necessary for the proper determination of this question. I have used the freight and passenger on these operating divisions as determined by me in the Norfolk & Western lake coal rate cases, as necessarily my divisions would show the same for this passenger purpose as well as for the freight purpose in either case, and on account of the expense entailed, I did not go into a similar division on the Shenandoah and the Radford divisions.

Q. 6. Which contain how many miles?

A. Which contain about 39.90 miles of the total mileage in West Virginia. My recollection is it is about $7\frac{1}{2}$ or 8 per cent of the total track mileage in West Virginia. I would say that the Norfolk & Western Railway Company keep on their books a division of expenses between freight and passenger. Their method is to locate directly to freight or passenger such of these expenses as can be directly assigned to either branch of the service, and in the memorandum of the analysis which I have made, and in my testimony, I shall refer to this direct assignment of expenses by using the word "allocation." The dictionary definition is slightly different 318 from that, but that is the general accepted use of the term now—that an allocation is a direct location of the expenses.

The remainder of the expenses such as are common to both freight and passenger have been divided by the Norfolk & Western Railway Company upon an arbitrary basis of 20 per cent to the passenger business. This 20 percent is supposed to represent the relation of the passenger engine mileage to the freight engine mileage, and does not take into account the switching engine mileage. Besides its arbitrary character as a general factor for the division of all expenses, it is open to the serious objection that it does not represent

the true relation of the passenger engine mileage to the freight engine mileage for the operating divisions under consideration, nor for the year under consideration, it having been determined for the entire Norfolk & Western system and for some year previous to the one in question, and no correction being made for any variation during the current year in this percentage as between freight and passenger. We have shown the book division of the Norfolk & Western Railway Company for the Pocahontas and Kenova divisions for the months of November, 1909, and May, 1910, both months within the fiscal year in question, ending June 30, 1910, and also the entire freight and passenger divisions as shown by the books of the company for the fiscal year ending June 30, 1910 upon an exhibit.

319 Q. 7. Mr. Hillman, will you file as a part of your deposition the operation expenses of the Pocahontas and Kenova divisions for the months of November, 1909, and May, 1910, for the fiscal year ending June 30, 1910, as reported in the books of the Norfolk & Western Railway Company, and mark the same "C. W. Hillman—Exhibit No. 1?"

Mr. COCKE: We object to the foregoing question on the ground that it is irrelevant to the issues made in the bill filed in this case.

A. Yes, sir; I so file them.

Q. 8. Mr. Hillman, will you also file as a part of your deposition a statement showing the operating expenses, Pocahontas and Kenova divisions, for the months of May, 1910 and November, 1909, divided into freight and passenger, on the Mutual Audit Company's basis, and mark the same "C. W. Hillman—Exhibit No. 2?"

Mr. COCKE: We object to the foregoing question on the ground that it is irrelevant to the issues made in the bill filed in this case.

A. Yes, sir, I so file.

Q. 9. Why do you select the month of November, 1909, and the month of May, 1910, as a basis for making up your Exhibits Nos. 1 and 2?

A. They were chosen in the case to which I referred, that is the Lake Coal rate case, as months typical of the business for the
320 year in those two months; and I consider them also as typical of the passenger business, that is the results of the passenger business as analyzed for these two months with practically the passenger business as analyzed for the year.

Q. 10. You mean the fiscal year of the railway company?

A. Yes, sir, the fiscal year of the railway company ending June 30, 1910.

Q. 11. Please quote the total figures as shown by you and those shown by the Norfolk and Western's method of division, giving a detailed statement.

A. On the Pocahontas division, for the month of November, 1909, the railway company shows freight expenses of \$251,118.53; passenger expenses, \$48,895.22. The division made by me shows \$261,065.34 as the freight expenses, and \$37,100.72 as the passenger

expenses. On the Pocahontas division for the month of May, 1910, the railway company shows freight, \$295,530.50; passenger, \$51,885.72. I show for the same division and the same month on Exhibit No. 2, freight expenses, \$289,713.86; passenger expenses, \$40,643.36. On the Kenova division for the month of November, 1909, the railway company's books show, as per Exhibit No. 1, freight expenses, \$189,565.38; passenger expenses, \$31,137.37. I show, as per Exhibit No. 2, same division and same month, freight expenses, \$202,117.35; passenger expenses, \$23,989.82. For the month 321 of May, 1910, the books of the railway company show, as per Exhibit No. 1, freight expenses, \$212,467.83; passenger, \$36,690.75; while for the same division and the same month I show, as per Exhibit No. 2, freight expenses, \$204,907.14; passenger expenses, \$25,557.84.

Q. 12. Mr. Hillman, please give the details in making up the Exhibit.

A. If you will note, the first column upon Exhibit No. 2 is marked "total as adjusted." The expenses as noted in Exhibit No. 1 are the expenditures during the month or the amounts of labor and material which were expended during the months of May, 1910, and November, 1909. In my maintenance of way and structures account, I have taken instead of the amounts which were expended during those two months, one-twelfth of the year's expenses, as representing the proper amount which should be charged to the traffic of those two months, for the reason that the expenditures made in any one month do not necessarily show the amount of expense which was incurred in that month; in fact they show an entirely different result, especially in maintenance of way and structures accounts, for the reason that the damage which has to be replaced during that month evidently did not occur during that month, but at some time prior to that month, and was simply replaced in that month; and for that reason I have taken the one-twelfth of the yearly 322 expenses as representing the proper amount to be charged during each of these months. This answers Mr. Cocke's side question as to the fact that the totals of the expenses as shown by me for these two months are not the same as those shown by the railway company for the two months.

In the second block of expenses—the maintenance of equipment expenses—these expenses have been assigned to different months on the basis of the respective mileages made by each class of equipment, such as cars, engines, or whatever they are for that month, and taken over in that way, and not on the one-twelfth basis; and, therefore, they have been adjusted as you will note the column is adjusted. They have been adjusted on that basis for the reason, as can be readily seen, that the repairs of cars made in any one month, and the expense attached thereto, are not necessarily to replace the wear made during that month but wear which has occurred previous to that time.

The first general account is Maintenance of Way and Structures. Under this first general account, the first item, No. 1—Superintendent

ence. This has been divided between freight and passenger upon the basis of accounts Nos. 2 to 16 inclusive, on the ground that the activities of the superintendent would be represented by the amount of work which he superintended, and the amount of work which he superintended is shown by Nos. 2 to 16 inclusive.

Accounts Nos. 18, 19 and 20 have been divided upon the same percentage as superintendence and for the same reasons.

323 Primary Account No. 2—Ballast—has been divided between freight and passenger upon the following basis: 10 per cent of the ballast has been considered as a wear proposition, as worn out by the passage of the traffic over it, and that has been divided between freight and passenger upon the basis of the weights of the respective freight traffic and passenger traffic passing over the tracks. Included in this is the switching, which has been taken upon the basis of 95 per cent freight and 5 per cent passenger. This gives a percentage of 93.153 per cent as the freight percentage of the weight passing over the tracks. The other 90 per cent of the ballast has been considered as a weather proposition, and not dependent upon the amount of traffic which passes over the track, but upon the weather conditions, and this has been divided between freight and passenger upon the basis of the gross earnings, which assigns 86.085 per cent to the freight traffic and the balance to the passenger traffic. I would state that the reasons for this division, or rather for the use of the weights in the division of the wear portion of this expense, is the inequality in the train mileage basis when it is considered as a factor, which basis is frequently used as a division between freight and passenger, and also the inequality of the engine mile basis, for the reason that it does not represent the total wear over the track. An engine mile or a train

324 mile pulling or representing a light train would be, if this method were used, on a parity with an engine mile or a train mile pulling a much heavier weight. There is no distinction made between the different classes of trains. The wear, therefore, has been taken by me upon the basis of the weights passing over the track, and in doing so I have considered that the speed of a passenger train is compensated for by the equipment of the freight train being of an inferior character and not being adjusted to the nicety of meeting the requirements of the track which the passenger train is. There are a number of considerations which enter into this, such as the larger amount of flat wheels which are on freight trains as compared with passenger trains. A flat wheel on a passenger train is removed immediately, or at the first end of a run; it is not allowed to go on, while the freight car will frequently make a number of trips, or the car be used off and on regardless of the flatness of its wheel, so that there is more destruction or wear to the track on this account than there is on the other. I recognize that in offsetting one of these against the other that I am offsetting two unknown factors. I am offsetting the effect of the speed on the track, which is unknown, against the effect of the inadequacy of the freight equipment and its inequitable loading, as you will frequently notice in looking over freight trains that one leans to the

right and the other leans to the left. The balance of these
 325 expenses which are due to the weather are replaceable from
 the gross earnings before the net earnings can be deter-
 mined; for that reason there has been an assignment made by me
 of this portion of the expenses upon the basis of the gross earnings.
 This part of the expenses has no relevancy, you might say, to the
 amount of traffic which passes over it; it is independent of it, and
 the only method of replacement is from the gross earnings, and
 from my point of view each traffic should stand its amount as ex-
 pressed in its gross earnings. The percentage of 10 per cent and 90
 per cent used here is derived from the Wisconsin Railway Com-
 pany's decision, in *Buell v. The Chicago, Milwaukee & St. Paul*
Railroad Company, where the entire amount of roadway and track
 expense, outside of rails and ties and other track material, was
 divided by them on the basis of 10 and 90. At this time these were
 all included under one operating heading.

The next primary account is No. 3—Ties: 17½ per cent has
 been considered as due to wear and divided upon the weight basis;
 82½ per cent has been considered as due to the weather and divided
 upon the earnings basis. The reason for the selection of this per-
 centage is that originally in the *Buell* case which I had started to
 examine critically the percentage used was 25, and after consider-
 able consultation on this point with the Commission at Mad-
 326 ison, Wisconsin—Wisconsin Commission, I adopted 17½
 per cent as representing the amount due to wear and that
 the balance was due to the weather. If you will refer to *Gillette's*
Handbook of Railway Cost, page 1260—

By Mr. COCKE: We object to this business of stating results of
 conversations with the Wisconsin Commission or any member
 thereof.

By Mr. CONLEY: Go on with your statement.

Mr. HILLMAN (continuing)—you will note there that under an
 80 to 90-pound rail it is stated that the percentage of wear on ties
 is about 5 per cent; under a 60-pound rail it runs 40 per cent. This
 is a railway engineer's handbook and is no doubt in possession of
 the Norfolk & Western people, or available to them, and could be
 referred to.

Primary Account No. 4—Rails: I have taken 90 per cent of the
 wear of the rails as due directly to the traffic passing over it, and
 the other 10 per cent due to the weather. In the *Buell* case this
 was taken as 100 per cent due to wear and no allowance made for
 the weather or the rusting of the rails. In the case of the Alabama
 2-Cent Rate Case, the engineer of the Louisville & Nashville road
 assumed the same proportions as I have in this case. That is a case
 which is on record and testified to, and in which I testified, and I
 am cognizant of the facts and the testimony.

327 Objected to by counsel for Plaintiff.

Primary Account No. 5—Other Track Material: It is divided
 upon the same basis as the preceding account No. 4, for the reason
 that "Other Track Material" in its wear is coincident with the rails.

Primary Account No. 6—Roadway and Track. The percentage of wear and weather in this account is this: Roadway and track is a composite account, and the work done under it represents more or less the following accounts: Nos. 2, 3, 4, 5 and 11. We find that the percentage of wear as against weather in these five accounts which I have mentioned is 48.8606 percent. We are, therefore, taking that 48.8606 percent of this Roadway and Track account was due to the replacement of the wear conditions and the other percentage as due to the replacement of the weather conditions, the first percentage being divided upon the weights and the second percentage upon the earnings basis.

Primary Account No. 8—Tunnels: This has been divided between freight and passenger upon the revenue per mile basis. The tunnels are not touched by the wear of the trains going through them, and are not particularly affected by the weather; and we, therefore, consider that their expenses are to facilitate a train movement, as a train movement, and for no other purpose; and we, therefore, divide them between freight and passenger upon the basis of the revenue 328 train miles; and as these tunnels are not within the switching limits of any other, the switching mileage is excluded from this computation. This gives 75.581 percent to freight and the balance to passenger.

Primary Account No. 9—Bridges, Trestles and Culverts: 15 percent of this is considered as wear and the other 85 percent as due to weather conditions, divided respectively upon the weights and the earnings.

Primary Account No. 10.—Over and Undergrade Crossings: Repairs to these over and undergrade crossings do not represent the features of the wear and the weather, but they are there in their entirety for the facilitating of the train movement as such, and they are, therefore, divided upon the train miles, including switching, as these grade crossings, over and underhead, are included in switching limits as well as outside on the main line track.

Primary Account No. 11—Grade Crossings, Fences, Cattle Guards and Signs: I have taken that 25 percent of these Grade Crossings, Fences, Cattle Guards and Signs is due to the wear and that 75 percent is due to the weather, the first being divided upon the weight basis and the second—the 75 percent—upon the earnings basis. The reason for the adoption of the higher percentage on grade crossings, cattle guards and signs is the fact that in rolling over the grade 329 crossings the tread of the wheels and the flange of the wheels play havoc with the wooden planks which are used in the formation of these grade crossings, and they wear out according to the weight passing over them; this is represented by the tonnage.

Primary Account No. 13—Signals and Interlocking Plants: This has been divided upon the basis of train miles, including switching, which assigns 78.834 percent to the freight traffic and the balance to passenger. The reason for this is obvious, as the signals and interlockers guard both the main line movement and switching

movement, and regarded on the basis of a train, regardless of the length of a train.

Primary Account No. 14—Telegraph and Telephone Lines: This has been divided upon the basis of 20 per cent passenger, the figures being taken by me from a statement made to me by the Superintendent of Telegraph of the Toledo Division of the Pennsylvania road, wherein he stated that $1/5$ th of his messages were due to passenger and $4/5$ ths were due to freight.

Exception by counsel for Plaintiff.

This is the only data that I have bearing directly upon this subject. I adopted it in this case. It has been my custom heretofore to take that on the basis of one-half car miles and one-half train miles, car miles being what I consider the static relation between freight and passenger traffic and the train miles representing the movement of freight and passenger.

330 Primary Account No. 16—Buildings, Fixtures and Grounds: I have taken that 70.66 per cent of this was due to freight and the balance 29.34 per cent was due to passenger. I have taken the tax report made by the Norfolk & Western road to the State of West Virginia for the year 1910, and have gone over roughly, but still I consider with approximate accuracy, the valuations of those buildings—those that are directly assigned to the freight and passenger service and those that are assigned to engine houses, shops, right of way buildings, water stations, fuel stations, and those that are general in their character; and I made the division of those in the freight and passenger service upon the basis of those buildings which could be directly assigned to freight and to passenger. I have taken the shops upon the general basis of maintenance of equipment accounts; I have taken the roadway buildings upon the basis of way and structures; I have taken the general office buildings upon the general percentage of all of these accounts as I have set them out, and have taken the water and fuel stations upon the basis shown in water and fuel accounts, as expressed in these exhibits; and the total result is 29.34 per cent of the buildings is a passenger item.

Primary Account No. 18—Roadway Tools and Supplies; Primary Account No. 19—Injuries to Persons; Primary Account No. 331 20—Stationery and Printing: These have been divided on the same basis as Account No. 1—Superintendence, and for the same reasons, their use being occasioned by the preceding accounts Nos. 2 to 16 inclusive.

This concludes the division between freight and passenger of the first block of accounts—Maintenance of Way and Structures.

The second block of accounts—Maintenance of Equipment.

Primary Account No. 24—Superintendence: I divided this on the basis of Accounts Nos. 25 to 45 inclusive, for the reasons that I have given with regard to superintendence above. This gives 88.0964 percent freight, the balance being passenger.

Primary Account No. 25—Steam Locomotive—Repairs: This has been divided between freight and passenger by the Norfolk & Western road; they have, however, included in their freight engine repairs

the switching engine movement. We have taken out from their total engine repairs the mileage proportion of switching as against the total and then charged 5 per cent of that to the passenger traffic, leaving the balance as freight. We then found that on account of company material carried on freight trains, a portion of which is passenger material, that is the fuel for locomotives and the
 332 amount of material used in both repairs to passenger cars and in other passenger service, that a further deduction of .415 per cent should be made from the freight engine repairs and charged to passenger because the freight engines while engaged in this service of hauling are aiding the passenger traffic to that extent. We have taken that percentage of the freight, not including the switching movement, and charged that to passenger in addition to its proportion of the passenger expense. The small amount of material which is carried on passenger trains for emergency in freight items can be disregarded, and also there can be disregarded any credit to passenger on account of the movement of the men passing backward and forward to their various duties. Those items I considered too small to go into. I had at one time in prior analyses considered this matter of company material on freight trains as too small to go into, but I found it assume a proportion which was not negligible when I went into it to determine it definitely.

There are no charges to Primary Account No. 26—Steam Locomotive—Renewals—on this division.

Primary Account No. 27—Steam Locomotive—Depreciation: There has been 89 per cent charged to freight and the balance to passenger traffic. This figure is taken from the valuation given in the Norfolk & Western's report to the State of West Virginia for 1911, and I herewith file Sheet No. 18 of that report as a part of my
 333 deposition, marked "C. W. Hillman—Exhibit No. 8", and the percentage can be verified from that.

Primary Accounts Nos. 31, 32 and 33, referring entirely to passenger train cars, are considered in total a passenger item.

Primary Accounts Nos. 34, 35 and 36, being freight train car repairs, are taken as a freight item, with the exception of allowing .415 percent to the passenger business on account of the passenger proportion of company material carried on freight trains.

Primary Account No. 40—Floating Equipment—Repairs: This is taken entirely as a freight item.

Primary Accounts Nos. 43, 44 and 45, being Work Equipment—Repairs, Renewals and Depreciation, are taken on the basis of Accounts Nos. 2 to 15 inclusive, under Maintenance of Way and Structures Account, the principal use of this Work Equipment being in these accounts, from 2 to 15 inclusive. I have left out of the computation of this account—the Repairs to the Wrecking Equipment, and also the slight use of this Work Equipment and also with reference to Buildings, Fixtures and Grounds.

Primary Account No. 46—Shop Machinery and Tools: This has been taken on the basis of Accounts Nos. 25 to 45, inclusive, the Shop Machinery and Tools being used in the activities represented by these accounts Nos. 25 to 45, inclusive.

334 Primary Account No. 48—Injuries to Persons—has been taken on the same basis and for the same reasons that the activities which might or might not result in injury have been expressed in the preceding accounts.

Primary Account No. 49—Stationery and Printing—has been taken upon the same basis and on the same supposition that this is the use of the material to which the stationery and the printing has been put.

This completes the division of the second block of accounts—Maintenance of Equipment—between freight and passenger, Pocahontas Division, May, 1910, and is shown upon Exhibit No. 2.

Q. 13. I note on Exhibit No. 2, on which you are now testifying under Division 1—Maintenance of Way and Structures—you have left out item No. 12. Please explain why this was done.

A. These accounts, as I stated, were taken practically bodily from the Norfolk & Western Lake Coal Rate cases; this account was not considered for the reason that during the months when the lake coal moves this expense of removing snow, sand and ice was not incurred and had no place in the expenses which we were then treating. On Exhibit No. 6, however, I have taken up these amounts which should be properly charged into this computation of expenses and added them to the expenses as shown by my Exhibits
335 2, 3 and 4; and, therefore, while omitted on this exhibit, they are not omitted from the final computation.

Q. 14. Mr. Hillman, you may now proceed with your detailed explanation of Division No. 3—Traffic Expenses.

A. In "Traffic Expenses" all of the accounts in this block, with the exception of Primary Account No. 58—Industrial and immigration Bureaus—have been allocated by the Norfolk & Western Railway Company and their allocation accepted. In Primary Account No. 58—Industrial and Immigration Bureaus—the engine mile factor of 20 percent had been used, and in this case I divided that upon the earnings basis instead of the engine miles basis, as I considered that in this respect the earnings would have more direct relation to these expenses than would the engine miles; thus assigning 86.085 percent of this account to freight in lieu of the 80 percent assigned to freight on the Norfolk & Western's books.

This completes the division of the third block of expenses—Traffic Expenses—between freight and passenger, with the results shown on my Exhibit No. 2.

The next block of expenses is the Transportation Expenses:

Primary Account No. 61—Superintendence—is divided upon the basis of all accounts in this block of expenses, with the exception of the so-called joint accounts, that is, operation of joint tracks,
336 yards and terminals. It so happens that on this division there are no joint tracks, yards and terminals; on other divisions there are, and where these accounts do occur they have been omitted from the figures which produce the percentage upon which "Superintendence" has been divided, for the very obvious reason that the expenses of these joint tracks, yards and terminals come to the superintendent—bills from other companies, and he is not active in the supervision of these expenses as they are incurred; he is active,

however, to a slight extent in checking them up after he receives them, but it is that clerical labor spent which in the credit accounts of the joint tracks, yards and terminals he has already supervised these accounts, which are culled from the accounts over which he has active supervision; and we should not, therefore, make a deduction in his percentage or any addition to his percentage due to the second supervision of these primary accounts; and for that reason they were omitted when we produced these percentages.

Accounts Nos. 97 and 98 being also divided on the same percentage as Account No. 61, would not enter into it; but, of course, being on the same percentage, if they did enter into it, they would not alter the percentage.

Primary Account No. 62—Dispatching Trains—has been divided between freight and passenger on the basis of the revenue
337 train miles, which assigns 75.581 percent to freight, the balance to passenger. The reason for this is obvious, as the dispatcher's business is to a large extent to see that his trains move over the road, and they move over the road on the basis of trains, not regarding the size of the trains. There is omitted in this whatever duties are assigned to the dispatcher in the distribution of cars to meet traffic. In this case I would consider that this part of his duties would throw a heavier expense on freight, as far as that portion goes, if it is considered, than it would upon passenger; and, therefore, in making this division between freight and passenger upon the revenue train mile basis, I considered it practically accurate, and if any error has been made, it is in charging slightly too much to the passenger expenses.

Primary Account No. 63—Station Employés: The Railway Company has allocated \$1,771.76 to passenger, and \$10,331.61 to freight, leaving only \$216.41 as a common item, which common item has been divided upon the basis of the allocations between freight and passenger; it assigns 85.3614 percent to the freight service and the balance to passenger.

Primary Account No. 64—Weighing and Car Service Associations: This is all freight, and so charged.

Primary Account No. 66—Station Supplies and Expenses: \$42.80
338 of this account is allocated by the Railway Company to passenger and \$221.81 to freight, leaving as a common item, \$333.66. We have assumed that of this common item, one-half of it pertains to the track service, which is chargeable to the station account, and have divided this one-half upon the basis of the revenue train miles—freight and passenger; and the other one-half has been divided between freight and passenger upon the basis of the allocations above mentioned, as this half is considered as pertaining primarily to station services, although unable to be allocated, as was the case in part of this account.

Primary Accounts Nos. 67 to 76, inclusive, are the Yard Expenses or the Switching Expenses: They have been considered as 5 per cent. passenger, plus .415 percent of the freight charge, which represents the amount of company material carried chargeable to the passenger

service, so that 5.415 percent. is the amount which has been charged to passenger.

Primary Account No. 80—Road Enginemen—has been allocated between freight and passenger by the Railway Company. From the allocated freight amount has been deducted the .415 percent. charged to passenger on account of the movement of company material.

Primary Account No. 81—Engine House Expenses—Road: This has been divided between freight and passenger upon the engine mile basis, which assigns 83.564 percent. to the freight business; the balance to passenger.

Primary Account No. 82—Fuel for Road Locomotives—has been divided upon the basis of the allocations of the Railway Company, they having allocated \$1,760.98 to passenger and \$30,090.40 to freight, leaving a common item of \$939.72, which latter item has been divided upon the percentage of the above two mentioned amounts.

Primary Account No. 83—Water for Road Locomotives—has been divided upon the basis of the fuel consumed.

Primary Account No. 84—Lubricants for Road Locomotives—has been allocated by the Railway Company and their allocation is accepted.

Primary Account No. 85—Other Supplies for Road Locomotives: The Railway Company have allocated \$55.85 to passenger, \$623.03 to freight, leaving a common item of \$298.99. This common item has been divided between freight and passenger on the basis of the allocations, which assigns 91.773 percent. to freight and the balance to passenger.

Primary Account No. 88—Road Trainmen: This has been allocated by the Railway Company as between freight and passenger, and from the freight proposition has been deducted the .415 percent on account of company material. I should also state that in the preceding accounts—"Fuel for Locomotives," "Water for Locomotives," "Lubricants for Locomotives," and "Other Supplies for Locomotives," these, too, I had the .415 percent. deducted from freight proportion and charged to passenger.

Primary Account No. 89—Train Supplies and Expenses: The Railway Company has allotted to passenger \$1,853.34. and to freight, \$1,748.95, leaving as a common item \$294.59. We have divided this common item on the basis of the allocations, which assigns 48.484 percent. to freight. The usual allowance for passenger material on company trains has been made in this account also.

Primary Account No. 90—Interlocker Block and Other Signal Operations: This has been divided between freight and passenger on the train miles, including switching. These interlockers govern the switching movement as well as the road movement of the trains. This assigns 73.834 percent. to the freight traffic and the balance to passenger.

Primary Account No. 93—Clearing Wrecks: The Company have allocated \$4,127.89 of this amount to freight and none to passenger, leaving \$1,410.50 as a common item. We have examined the pay-

rolls and from them I deduce that \$941.70 of this amount is the ordinary wages of the men who are waiting call on account of wrecks. In other words, of men who would be on duty whether a wreck occurred or not. We have divided this \$941.70 upon the basis of the revenue train miles between freight and passenger, which assigns the amount to passenger as shown upon Exhibit No. 2 opposite this account.

341 Primary Account No. 94—Telegraph and Telephone Operations: This has been divided upon the basis of 20 percent passenger; for the reasons stated in the discussion of Account No. 14.

Primary Account No. 97—Stationery and Printing: All accounts in this block of expenses are divided the same as Account No. 61—"Superintendence."

Primary Account No. 98—Other Expenses: I have divided this upon the same basis as the preceding account.

Primary Account No. 99—Loss and Damage to Freight: This is all a freight item.

Primary Account No. 100—Loss and Damage to Baggage: All a passenger item.

Primary Account No. 101—Damage to Property: Now this is one of the accounts that I took as accruing on the whole year and then dividing it by twelve, as the payments for damages to property would not be made according to the months in which they occurred. I therefore took this upon a year's basis; and this is true with regard to Accounts Nos. 99 and 100—"Damage to Freight" and "Damage to Baggage," both being taken upon a monthly average instead of the amounts charged by the company during that month. This Account No. 101—"Damage to Property"—I have divided by the Company's figures—on their percentages—which give \$114.95 as the freight charge, as shown upon this Exhibit, and the balance to passenger.

342 Primary Account No. 102—Damage to Stock on Right of Way: This has been allocated to a large extent by the Railway Company. We have accepted the figures shown in their report of the annual operations of the road—both freight and passenger—and have divided them by twelve, in order to obtain the amount chargeable properly to this month; it is their total figures, freight and passenger, for the year, divided by twelve.

Primary Account No. 103—Injuries to Persons: This has been to a large extent allocated between freight and passenger by the Railway Company, and we have again taken the monthly average for their total charges as the amount properly chargeable to this month, with the result shown upon Exhibit No. 2 opposite this account.

This completes the division between freight and passenger of the fourth block of expenses—"Transportation Expenses."

The next block of expenses are the General Expenses. We find that of these the Norfolk & Western Railway Company have allocated to passenger \$446.14 and to freight \$1,815.67, leaving as a common item \$7,263.79, which we have divided upon the basis of all of the preceding accounts up to this block of accounts—"General Expenses."

This assigns 87.7483 percent. to freight and the balance to passenger. The reason for treating the General Expenses upon the basis of the preceding accounts is that we consider that the activities displayed by the men under this block of expenses are due to the expenses which have preceded them, and are therefore divisible upon this basis.

This completes the division between freight and passenger for the month of May, 1910, Pocahontas Division, with the results shown on Exhibit No. 2, which have already been quoted in this testimony.

The division of the expenses between freight and passenger for November, 1909, on the Pocahontas Division, and for May, 1910 and November, 1909, on the Kenova Division, has been made upon the same basis as has just been stated in detail for the Pocahontas Division for the month of May. The percentages of weights, train miles and earnings would, of course, vary in each month, but the principle of division is the same for each month and each division.

I furnish herewith for inspection of the Comptroller of the Norfolk & Western Railway Company the working papers, which show in detail the percentages upon these divisions into divisions and months in which I have not gone into details.

Q. 15. Mr. Hillman, will you please file as a part of your deposition a statement showing the operating expenses for the month of November, 1909, and May, 1910, passenger, Pocahontas and Kenova Divisions, and Pocahontas and Kenova Divisions in West Virginia, and mark the same "C. W. Hillman—Exhibit No. 3."

Mr. COCKE: We object to the foregoing question on the ground that it is irrelevant to the issues made in the bill in this case.

A. I file such exhibit herewith, marked "C. W. Hillman—Exhibit No. 3," and would state that it shows the passenger expenses for the months of November, 1909, and May, 1910, on both the Pocahontas and the Kenova Divisions separately, that is the divisions separately, but the months consolidated, the figures being taken from Exhibit No. 2; it also shows in the second and fourth column of figures the amount of the passenger expenses assigned to West Virginia from the Pocahontas Division and from the Kenova Division, in one case being 94.4 percent, based upon the mileage, and the other in the last column, 82.39 percent, also based upon the mileage. There are no further comments on this exhibit excepting that we have assumed in this case the expenses in West Virginia commensurate with the mileage.

Q. 16. Mr. Hillman, will you please file as a part of your deposition a statement showing the operating expenses for the months of November, 1909, and May, 1910, Pocahontas and Kenova Divisions in West Virginia, passenger—intrastate, and file the same as "C. W. Hillman—Exhibit No. 4."

Mr. COCKE: We object to the foregoing question on the ground that it is irrelevant to the issues made in the bill in this case.

A. I do file such exhibit, marked "C. W. Hillman—Exhibit No. 4."

At 1:00 o'clock p. m., a recess was taken until 2:00 o'clock p. m.

The further taking of these depositions was resumed at 2:00 o'clock p. m., pursuant to recess.

C. W. HILLMAN resumed the witness-stand for further examination.

Direct examination (continued).

By Mr. CONLEY:

Q. 17. Mr. Hillman, will you explain Exhibit No. 4, as to the manner of making up and adjusting the items, and any other matters as you desire.

A. Under the first block of expenses—Maintenance of Way and Structures—Account No. 1—Superintendence: This has been divided as is usual upon the basis of all of the accounts in this first block of expenses, from 2 to 17 inclusive, which gives a percentage for intrastate of 56.5731. The expenses for Accounts Nos. 2, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14 and 15 have been divided between inter and intra passenger upon the basis of the passenger miles, inter and intra, the passenger miles on these two divisions for the 346 months we have included being interstate 1,630,346, intrastate 1,630,508, the percentage of intrastate being 50.0036. These are the accounts which show the wear of the tracks due to the passage of the traffic over them. Part of these were brought into the Maintenance of Way and Structures accounts partially upon the basis of wear and part on earnings. The reason for that was that we were then dealing with what we might commonly term "traffics"—the passenger and the freight. Having, however, reduced the amount which it is necessary to replace to the basis of, you might say, homogeneous traffic, that is, all being passenger, and knowing the passenger miles passing over this track, we can consistently divide it upon the basis of the passengers using the track, no matter whether this original expense was incurred through wear or through weather. We have, therefore, taken this basis of the passenger miles as the factor for division. It is claimed that there should be a division in this passenger wear, or a recognition of the effect of the through trains and local trains upon the track, and that the local train is more expensive than the through train. It so happens that the heaviest train upon this whole division which we have under consideration is also the heaviest earning train. It is your train that goes west and passes over that old Kenova Division, which I believe is your train No. 16. I have from Mr. Cox the earnings per train, and you will find this train, which is a local, is the 347 heaviest earning train that you have on the whole line per mile of train; and, therefore, I have considered that the claim that more intrastate passengers travel on the local trains and between local stations, and that, therefore, a heavier expense should be

attached to them than to the interstate, is not well founded in this case, as this local train, which according to Mr. Cox's statement carries the most intrastate passengers—I am not able to check the figures and I don't think Mr. Cox had the figures, but assumed that on account of making more local stops—as I said, this train is the best train per mile that you have and shows a better earning for miles run. It is evident that as far as that train goes the presumption is in favor of the intrastate passengers and not the interstate passenger.

Q. 18. What Mr. Cox have you referred to?

A. Mr. Cox, the Comptroller of the Norfolk & Western Railway Company, in the testimony already given in this case; I can't quote the page. I have considered that this effect of this heavier train, and, therefore, more economical train, is sufficient to overcome whatever difference there may be from these little branch lines where the intrastate passengers predominate, also as they do upon this heavy main line train. For that reason I have taken all these expenses upon the basis of the passenger miles and so entered them.

Perhaps I should say in this regard that we have also dis-
348 regarded in this computation, to the extent of making it a factor, the percentage of switching which accrues to the passenger as regards to the wear of the track. The reason for that is, that the passengers are not as the freight; on the freight you are obliged to switch a car—it is governed and must be adjusted according to the activities of the road while it progresses, or as it strikes a yard. A passenger train having once been switched and put in position, is put in position for the use of the passengers along this entire run, and the switching therefore accrues on the passenger business upon the same basis as the train run or the passenger miles. A distinction there, which we will make in the freight expenses upon these two divisions for West Virginia, intrastate, is not considered for that reason.

Coming now to Primary Account No. 16—Buildings, Fixtures and Grounds: We find that according to the analysis which I have referred to that 29.34 percent of the repairs due to buildings is a passenger item; that of this 29.34 percent, 60.8402 percent applies directly to the passenger buildings themselves, that is, stations and such buildings as are used directly by such passengers, and that the other portion, amounting to 39.4457 percent, is the proportion of other buildings, such as shops, engine houses, water and fuel stations and road houses, which applies to the passenger department.
349 ment. We have, therefore, taken only station grounds and buildings, which amounts to \$3,599.64, the percentage to intrastate passengers at two to one on the passengers themselves, not on their mileage, because the passengers use these station facilities regardless of the distance they travel. That gives a percentage of 79.6845 as the intrastate passenger proportion of this \$3,599.64, or \$2,868.36. The balance of these expenses, amounting to \$2,344.84, have been divided on the basis of the passenger miles, putting 50.0034 percent as intrastate. The expenses on these buildings accrue per mileage travel per passenger, and not per passenger, as

there is no double terminal in them. That gives a division of the expenses which we have set up here in Account No. 16, and shows the amount set opposite this account in column No. 2 of Exhibit No. 4.

Primary Accounts Nos. 18, 19 and 20, have been divided upon the basis of all the accounts in this block of expenses, 2 to 17, inclusive, the same as "Superintendence," and for the same reasons which I expressed in my discussion of the division between freight and passenger. This assigns 56.5731 percent to intrastate passenger account.

Passing now to the Maintenance of Equipment accounts: All of these accounts in this block of expenses have been divided upon the basis of the passenger miles, there being, as I have stated in the discussion of Maintenance of Way and Structures accounts, no distinction between the switching movement and the road movement as between inter and intra, both being divisible upon the passenger mile basis. This gives us the results which are found in the division of the second block of expenses upon Exhibit No. 4.

By Mr. COCKE: Please state how you obtained your information with reference to the amount of interstate passenger miles and intrastate passenger miles for the two months of which you have just spoken and for the two divisions under discussion?

A. They were taken off independently by my men from the records of the company. I will add to my exhibits the amounts so found by these men on each division, making a separate exhibit. It is not prepared at present, but it will take but little time to do so, and it will be marked "C. W. Hillman—Exhibit No. 4-A."

The next block of expenses are the Traffic Expenses: On Exhibit No. 4 are the Traffic Expenses. These have been divided between interstate and intrastate on the basis of the passenger revenue interstate and intrastate, the passenger revenue, intrastate, being \$31,109.86, the passenger revenue, interstate, being \$38,373.51, the percentage being 44.7731. I have to say in this regard that the intrastate business on every road, or almost every road, is to a great degree tributary to that road, and does not require as much exercise on the part of the traffic men to obtain it; and that, therefore, in assigning the earnings percentage to the intrastate I think I have given it fully as much if not more of the expenses than it is entitled to. But it is the only factor which we have, outside of keeping tab on the activities of the men, that we can base this division upon, and that is, What is the total result of these activities?—whether they put in more time on one of them than the other.

The next block of expenses is "Transportation Expenses"—Primary Account No. 61—Superintendence: This divided upon the basis of all the accounts in this block of expenses, with the exception, of course, of those joint accounts which I mentioned in the division between freight and passenger.

The next account is Primary Account No. 62—Dispatching

Trains: This is divisible upon the basis of the passenger miles, 50.0034 percent to the intrastate.

Primary Account No. 63—Station Employés, and Primary Account No. 66—Station Supplies and Expenses: These are both divided upon the basis of intrastate passengers at two interstate passengers to one, or 79.6845 percent. The Yard Expenses—Primary Accounts Nos. 67 and 76 inclusive, have all been divided upon the basis of the passenger miles, 50.0036 percent to intrastate, for the reasons that I have stated in the discussion of switching in Maintenance of Way and Structures Accounts.

Primary Accounts Nos. 80 to 94 inclusive, have been divided upon the basis of the passenger miles of 50.0036 percent to the intrastate, for the reasons that these are the train expenses which accrue upon the basis of the passengers as they move along, being the train men and the train supplies and expenses, both engine and the other part of the crew; the exception being Account No. 94—"Telegraph & Telephone Operations." This account might possibly, with some show of reason, be considered upon the basis of part of it on the mileage of the passengers as they move over the track, and part of it upon the basis of the passengers taking the trains and leaving the trains, which would give us a slightly increased percentage for the intrastate. I have, however, discarded that distinction in this analysis, for the reason that, as we all well know, much more of our telegraph and telephone operations are in the nature of finding out connections for passengers and reserving sections, etc. for them, and that accrues very largely upon the interstate business. I have treated this whole account upon the basis of the passenger miles. The amount is not very large, however, in this regard.

Primary Accounts Nos. 97 and 98, being general in their character, the same as No. 61—Superintendence—have been divided upon the same percentage of all the accounts in this block of expenses. This percentage is 52.9759.

Primary Account No. 101—"Damage to Property"; No. 102—"Damage to Stock on Right of Way"; No. 103—"Injuries to Persons," have each been divided upon the basis of the passenger miles, as it can readily be seen that the damage or the loss or liability to damage in these cases accrue as per the mileage made by the passengers and not on the number of passengers.

This completes the division of all Transportation Expenses—passenger, between interstate and intrastate, with the results shown upon Exhibit No. 4.

The next block of expenses are the General Expenses, which have been divided upon the basis of all the previous accounts up to this point between interstate and intrastate, for the reason that the accounts expressed under the head of "General Expenses" are for the supervision of the accounts which have preceded them, and, therefore, are divisible upon the basis of these expenses.

This completes the division between interstate and intrastate passengers on the Pocahontas Division, with the results shown upon Exhibit No. 4.

The division of expenses for the Kenova Division on Exhibit No. 4 is made upon the same basis, with the varying percentages which would necessarily accrue to the Pocahontas Division; and I submit herewith the working papers for the inspection of the Comptroller of the Norfolk & Western Railway that he may obtain these various percentages from them.

354 Exhibit No. 4-A, which I propose to file, will show both the figures of the Pocahontas and Kenova Divisions as taken off by my men.

Q. 19. Have you made any computation as to the freight earnings and operating expenses in their relation to intrastate business in West Virginia?

A. Yes, sir; I have.

Q. 20. Will you please file as a part of your deposition such statement showing the operating expenses for the months of November, 1909, and May, 1910, freight, Pocahontas Division, adjusted to intrastate basis, and mark the same as "C. W. Hillman—Exhibit No. 5"?

A. Yes, sir; and I herewith file it as "C. W. Hill—Exhibit No. 5."

Q. 21. You may state at whose request you made up this statement?

A. This statement was made up at the request of the Attorney General of West Virginia, and is intended to show the operating expenses for the intrastate freight in West Virginia. I would say in this connection that the circumstances were such that it was impossible for us to go into the details of the tons and the ton miles to make up the inter- and the intrastate business in West Virginia. We received from the company their statement of the tons and the ton miles upon the earnings of the freight, but these figures were for the entire state, and not having them separately upon the divisions which we had under examination, made it necessary for us to pursue in this case a different method for obtaining the operating percentage of intrastate freight than we did in obtaining the percentage of operation of the intrastate passenger.

355 Q. 22. How did you go about this?

A. We took the freight expenses for the months of November, 1909, and May, 1910, brought over from my Exhibit No. 2 in this case and as far as the Pocahontas Division went, and we then adjusted those figures to an intrastate basis, adjusting them so that if all of the freight had been carried upon the intrastate terms, the second column in this exhibit would have reflected the amount of expenses which would have accrued. It was necessary for us to do this on account of us not having the data before us, and at the time I was spoken to of making this computation, of not having any time to go into the matter.

Q. 23. You mean that you had not the data relating to ton miles on these divisions?

A. My reason for selecting the Pocahontas Division for this purpose was that upon the Pocahontas Division I found that owing to

its mountainous character and the grades that the freight expenses were higher upon this division than they were upon the Kenova Division, or than they would be by logical deduction upon the Shenandoah Division, and that, therefore, if we took the 356 freight expenses upon the Pocahontas Division, we were then taking over into West Virginia as the basis for division the highest expenses which could accrue on freight; and, therefore, the highest expenses which could accrue on intrastate freight.

Q. 24. I understand you to say then that the most expensive division in West Virginia of the Norfolk & Western system is the Pocahontas Division?

A. Yes, sir, the most expensive freight division then in West Virginia.

Q. 25. You may state, if you will, your method in detail of adjusting these expenses to the intrastate basis.

A. In certain expenses the intrastate is heavier than the interstate per ton per mile, both because of the two terminals within the state and because of the lesser average haul over which these increased terminal expenses must be spread; and in order to reduce the total freight expenses of all character to the intrastate basis this extra terminal must be considered, and also the lesser average haul over which the terminal is to be spread must be considered; and in order to determine how tons and ton miles are to apply, we are compelled to reduce all of our tonnage to the intrastate basis, and then divide by our total ton miles of all character into the total expense of all freight when these expenses have also been 357 expanded into the intrastate expenses, which would give us the cost per ton per mile for intrastate freight, but not the absolute cost in dollars and cents, because we do not know just the tons and ton miles to which to apply them. We afterwards have them applied to certain earnings where we can make that basis.

Q. 26. Please explain in connection with your explanation in detail of Exhibit No. 5 what the first column, under the head of "Freight" relates to, and what the second column, under the heading "Adjusted" relates to?

A. The first column with reference to freight names the cost of all the freight on the Pocahontas Division for these two months. The second column represents the expansion of these expenses upon the supposition that all of the freight was moving on intrastate conditions of double terminals and lesser hauls.

Primary Account No. 1—Superintendence—is divided upon the basis of the subsequent accounts 2 to 17 inclusive, as usual. It will be seen from further analysis that this adds to the regular percentage at which all freight should be hauled 52.9569 per cent as far as these accounts go in Maintenance of Way and Structures.

In other words, to haul a ton mile of intrastate freight it is 358 approximately 53 per cent more wear on the track and the structures than it is to haul one ton mile of all freight.

Primary Accounts Nos. 2, 3, 4, 5 and 6, are composed partially of switching and partially of road movement: 7.8452 per-

cent of the total weight of freight is a switching proposition. We have, therefore, taken 7.8452 percent of the total charge to these accounts and set them off by themselves as a terminal expense, that is, to the switching of the freight and which would accrue upon the basis of the tons of freight handled and not upon the basis of the ton miles. We have taken two terminals; therefore our first proposition is two tons for intra against one ton for inter, as far as the switching goes. We have then found from a letter furnished me by Mr. Coxe, dated December 4, 1911, wherein he gives the number of tons and ton one mile of the interstate and the intrastate freight. Practically, and this is borne out by reference to Mr. Coxe's exhibits filed for the previous years in this case—1909, 1908 and 1907, that the interstate mile is three times as long as the intrastate mile. Therefore in coming down to a ton mile basis it would be necessary for us to increase this difference between interstate and intrastate three times over in order to cover the average mile when we are reducing this to a ton mile basis. We therefore take all these switching expenses which accrued in the accounts I have just mentioned to the intrastate freight and *and* multiply them by six; the balance of the expenses accrue equitably per ton mile, being haulage items. We therefore add to these items which accrue per ton mile our percentage of 7.8452 multiplied by six. In that way we have then reduced these expenses, 2 to 6 inclusive, to the basis of the intrastate expenses. As I said a moment ago, we have, however, neglected the small quantity of intrastate which had already gone in at its higher cost to make up the total of all freight, and in so far as we have included this small percentage of intrastate freight, we have been overcharging intrastate in our summary of expenses; but as this amounted to about 5 percent of the total, it is not a serious matter.

Primary Account No. 8—Tunnels: This is entirely a road expense and accrues equitably upon both classes of traffic according to the ton miles and needs no change.

Primary Account No. 9—Bridges, Trestles and Culverts: This is treated in the same way as Accounts Nos. 2 to 6, by segregating the switching and multiplying the switching expenses by six, in order to bring it to intrastate terms.

We find that in Over and Undergrade Crossings, Grade Crossings, Cattle Guards and Signs, Signals and Interlocking Plants, being Accounts Nos. 10, 11 and 13, that these are divided, not upon 360 the weight basis which we have used, but upon the train mile basis; therefore a much higher percentage, which is 20.9158, must be treated as accruing on the 6 to 1 basis. In other words, the terminals in the case of these accounts amount to 20.9158 percent instead of 7.8452 percent, as in accounts 2 to 6. Proceeding in the same way as on the prior accounts, but on the different percentage, we have charged as marked under the column head "Adjusted" upon Exhibit No. 5.

Primary Account No. 16—Buildings, Fixtures and Grounds: We have segregated these accounts according to their use and filed that on this rough division, of which I have spoken heretofore, that 35.1475 percent of the buildings are upon the basis of 6 to 1 against

the freight service; that is, the proportion of the freight houses and shops, the proportion of the road buildings which accrue to switching, the proportion of the shops and engine shops which should accrue to switching, and the proportion of the water stations, etc. which should accrue to switching, amount to 35.1475 percent of the total. This percentage of the total charge to freight has been multiplied by six and added to the amount which accrues as a regular road expense, which is the other sixty-four and a fraction percent, and which is divided equitably between the two classes of traffic, that is, upon the ton mile basis. This gives us the expansion of this \$15,165.44, the freight charge, to \$29,252.42.

361 Primary Accounts Nos. 18, 19 and 20, being general in their character, partake of the increase which is shown by the increase in Primary Accounts Nos. 2 to 17 inclusive, which adds practically 53 percent to their proportion when reduced to the intrastate terms. This reduces the entire amount of the Maintenance of Way and Structures accounts to the intrastate terms, as shown upon Exhibit No. 5, giving \$159,237.24 as the total, adjusted.

We now come to the Maintenance of Equipment Accounts—Block No. 2: On our Maintenance of Equipment account we have again recognized the division between locomotive divisions in Primary Accounts Nos. 25, 26 and 27, being Steam Locomotives—Repairs, Renewals and Depreciations. We have again recognized the division of the switching part of this charge and the road part of the charge. The switching part of the charge we have taken on the basis of 6 to 1; the road part being even up between the passenger miles. Reducing on this basis we have the figures which are shown opposite this account on Exhibit No. 5.

The next accounts are Primary Accounts Nos. 34, 35 and 36—Freight Train Car—Repairs, Renewals and Depreciation: We have taken these directly as accruing upon the mileage movement, there being no distinction between intrastate and interstate upon these accounts.

362 Accounts Nos. 43, 44 and 45, being the Work Equipment—Repairs accounts, we have taken upon the basis of the Accounts Nos. 2 to 14, inclusive, in the Maintenance of Way and Structures accounts, they being upon that basis, and we have added that percentage to them which showed in those accounts and thus reduced them to the adjusted basis.

Primary Account No. 46—Shop Machinery and Tools; Primary Account No. 48—Injuries to Persons; and Primary Account No. 49—Stationery and Printing: These have been divided upon the basis which shows the increase which had accrued to the freight expenses adjusted to intrastate as above those which were for all freight in this block of accounts.

Traffic Expenses: We have taken these evenly as accruing mile for mile, interstate and intrastate, with the exception that we have cut out account No. 57 from any consideration of any intrastate traffic, this account being "Fast Freight Lines."

Transportation Expenses: Primary Account No. 61—Superin-

tendence: This bears the same proportion of increase as the balance of accounts in the block of expenses would show when adjusted.

Primary Account No. 62—Dispatching Trains: This is upon the straight mileage basis, as we have considered this as a train movement expense entirely, and, therefore, accrues upon the ton miles and not upon the tons themselves.

363 Primary Account No. 63—Station Employés: This is expanded on the basis of two terminals to one and to three to one of the average haul, making a total of six to one of the station employés with reference to interstate and intrastate freight.

Primary Account No. 64—Weighing and Car Service Associations: This has been taken upon the basis of the accounts as three to one; that is we omit in this case the double terminals and only spread it over the average haul, as the Weighing and Car Service Associations would not carry with it the double terminals, in my opinion.

Primary Account No. 66—Station Supplies and Expenses, and Primary Accounts Nos. 67 to 76, being yard expenses, are taken upon the basis of 6 to 1, that is double terminals, and three times the double terminals in order to represent the difference in the average haul of the freight, as these expenses must be spread out over the ton miles.

Primary Accounts Nos. 80, 81, 82, 83, 84, 85, 88, and 89, being road expenses, are taken as accruing between interstate and intrastate on the straight ton mile basis, and, therefore, need no change.

Primary Account No. 90—Interlocking Block and Other Signal Operations: You will remember that 20.9158 percent of this is the switching movement and should, therefore, be taken upon
364 the basis of 6 to 1, while the remaining percentage of the account is straight and remains without change.

Primary Account No. 94—Telegraph and Telephone Operations: This is considered as accruing equally on each set of traffic per ton at the multiple of three to one. It is difficult to accommodate it to the average haul in order to reduce it to the intrastate basis.

Primary Account No. 97—Stationery and Printing, and Primary Account No. 98—Other Expenses: These are the same as Account No. 61, being advanced to the intra-state adjustment upon the basis of the increase shown by the balance of the accounts in this block of expenses.

Primary Account No. 99—Loss and Damage—Freight: This has been taken upon the basis of the straight ton miles, the liability to damage being considered as accruing according to the number of miles that the freight moves.

Primary Account No. 101—Damage to Property: We recognize 20.9158 percent due to switching, and this has been multiplied by six, in order to reduce it to the intrastate figure, and then to that we add the balance as accruing upon the road movement, or straight, without any change between the two.

Primary Account No. 102—Damage to Stock on Right of Way: This accrues according to the ton miles, and, therefore, needs no change.

365 Primary Account No. 103—Injuries to Persons: We again estimate that the liability to injury in the switching movement is six to one and so treat this expense, to which we add the regular road train movement liability to damage upon the straight ton mile basis.

This completes the division of the total freight expenses into the intrastate expenses and gives us the figures which are shown upon my Exhibit No. 5, under the column "Adjusted."

We then expand the fifth division of expenses, that is the "General Expenses," to interstate and intrastate upon the basis of the increase which is shown in the prior accounts, which gives us the figures which are shown upon our Exhibit No. 5, and this gives us a total increase in these expenses of practically $81\frac{1}{2}$ percent per ton per mile; that is, that it costs practically for intrastate freight $81\frac{1}{2}$ percent more per ton per mile than does all freight expenses on the road. If we would excerpt from this intrastate before making the division, this percentage would be slightly decreased, but very slightly. This gives us the cost per ton per mile for all freight reduced to intrastate terms on the Pocahontas Division. If we would include the Kenova Division in this we would have a less cost per ton per mile for intrastate, for the reason that the total freight expenses on the Kenova Division would be less per ton per mile

366 than they would upon the Pocahontas Division. You will find in the later exhibits which I have made showing the rate per ton per mile and the expenses per ton per mile, that the relation between them upon the Pocahontas Division is practically 20 percent of the receipts for the freight expenses, intra-state. If we put in the Kenova Division it would bring this down to about 19 percent. We have not taken the Kenova Division into account, as we desired to show this upon the basis which would indicate the highest expenses. The reason we did not treat the Kenova Division the same way was because we had not the amount of interstate and intrastate on that division so that we could compare the totals and obtain the result, and, therefore, when I said that it would probably make about 19 percent, it is a rough estimate and it is not based upon figures. We are making our final percentage upon these figures that I have explained, showing 20 percent as the operating expenses of intrastate freight.

Q. 27. What do you mean by your reference to 20 percent, as stated above?

A. I mean that if you carry an intrastate freight shipment for which you receive one dollar, that the expenses of carrying that amount to twenty cents.

Q. 28. Have you made up an intrastate passenger statement, in its relation to the State of West Virginia, for the months of November, 1909, and May, 1910?

A. Yes, sir.

367 Q. 29. Will you please file the same as a part of your deposition and mark it "C. W. Hillman—Exhibit No. 6"?

A. Yes, sir, I so file.

Q. 30. Please make such explanation of the exhibit as you think proper.

A. The total passenger revenue on the Pocahontas Division, as will be shown by Exhibit No. 4-A, is \$31,109.86; on the Kenova Division, \$17,285.91. These are the earnings on these two divisions on the basis of the 2-cent passenger rate—not the rate which the road is charging at present, but on the 2-cent passenger rate. I would say that the average per passenger per mile is about 1.94 cents, as shown by these earnings. Mr. Cox's exhibits, for the time when the 2-cent passenger rate was in effect, show practically the same figures, so that there is little or no doubt of these being the correct figures on the 2-cent basis. These figures are for the passenger revenue alone. The by-products of the passenger traffic—the mail, express, baggage, etc., amount to \$17,764.06 on the Pocahontas Division for these two months. We consider 94.4 percent of this as accruing in the State of West Virginia, or \$16,769.27. You will recollect that this is the percentage of the total expenses upon the Pocahontas Division which we took over as representing the West Virginia portion. Now we have these by-products of the passenger business in the State of West Virginia on the Pocahontas
368 Division. We have already taken up and divided all of the expenses of conducting the passenger business, including the expenses which are incurred in hauling these by-products as well as the passengers themselves. Having assigned to the intrastate passenger business 52.9294 percent of the total, we take of these total earnings the same percentage as the equitable amount with which the intrastate traffic should be credited, or \$8,875.87.

On the Kenova Division the total amount of these by-products of the passenger business, and all in West Virginia for the Norfolk & Western road have netted their earnings aggregate on this division between this State and in Ohio \$8,246.21. By reference to our Exhibit No. 4, it will be found that 58.8344 percent. of the total passenger expenses on the Kenova Division is an intrastate matter. We have, therefore, taken our proportion of these by-products of the passenger business on the same percentage as the expenses have been charged us in intrastate, which gives us \$4,851.61. This makes a total passenger earning for these two months in the State of West Virginia credited to intrastate of \$62,123.25; the expenses, according to Exhibit No. 4, were \$57,904.83; the removal of the snow, sand and ice on the Pocahontas Division which we omitted in the original computation amounts to \$79.70; on the Kenova Division it amounts to \$23.34. Adding these two amounts to the total of Ex-
369 hibit No. 4, gives us \$58,007.87, giving us an operating percentage of 93.3754 chargeable to intrastate traffic, intrastate traffic being on the basis of two cents per passenger mile.

Q. 31. What do you find from Mr. Cox's exhibit previously filed in this case as to the relation of taxes to earnings?

A. I found that the relation of taxes to earnings is 3.5 percent. I found that this coincides very well with the taxes upon the entire Norfolk & Western system—everywhere. But I do not agree with

Mr. Coxe that the taxes should be charged up on the earnings basis. I think that the taxes should be charged up on the basis of the expenses, and instead of deducting from the earnings 3.5 percent and adding to it this operating percentage, I have increased the amount of taxes chargeable to intrastate business by the increase in expenses relative to the total expenses which will be shown by intrastate business, making such an increase to charges 4.0449 percent as the tax percentage chargeable to intrastate in lieu of Mr. Coxe's 3.5 percent. This gives us a total of operating expenses and taxes, intrastate, in the State of West Virginia, when calculated upon the 2-cent basis, passenger, of 97.4203 percent.

370 Q. 32. Mr. Hillman, I understand that the Norfolk & Western Railway Company, during the period covered by Exhibit No. 6, charged two and one-half cents per passenger per mile. Why did you eliminate the one-half cent from your calculation?

A. For the reason that I deemed it necessary for us to have this upon the basis which was attacked, which was the 2-cent basis, and to show what the earnings and operating expenses would be upon that basis. If you should wish it added to this, we would add .338 cents per passenger per mile more in order to show it upon the 2½-cent basis.

Q. 33. Have you made any figures combining the intrastate freight and passenger business, so as to show the operating percentage of the total intrastate business in West Virginia?

A. Yes, sir, I have.

Q. 34. Will you file as a part of your deposition such a statement and mark it "C. W. Hillman—Exhibit No. 7"?

A. I file such an exhibit herewith.

Q. 35. Will you kindly summarize your figures for May, 1910, as shown upon Exhibit No. 7?

A. I find that the total intrastate receipts from all sources amount to \$53,653.12 for the month of May, 1910. These are shown in detail upon Exhibit No. 7. I find that the operating expenses for passenger, taken from Exhibit No. 3, are \$32,116.66; the freight operating percentage is 20 percent. (I will state in a
371 moment the figures showing this percentage.) Taking this percentage of the freight revenue in the State of West Virginia, intrastate, \$19,365.00, it gives us \$3,873 as the freight operating percentage, a total operating percentage of freight and passenger of \$35,989.66, or an operating percentage of 67.0784 for the combined traffic. I find that applying the expense basis to the taxes in lieu of the earnings basis, it expands the 3.5 percent used by Mr. Coxe to 6.35 percent for the freight, as shown upon Exhibit No. 7; for the passenger, 4.0449 percent. This gives us the figures shown upon Exhibit No. 7, for the taxes, which amount to \$2,616.60, making the total of operating expenses and taxes, \$38,606.26, or a percentage of operation and taxation of 71.9553 for the intrastate business, freight and passenger, in the State of West Virginia.

The figures for that 20 percent are as follows: The tons one mile for November on the Pocahontas Division were 87,719,632;

for May, 82,905,813; total for both months of 170,625,445. If you divide these ton miles into the \$999,384.07, which I have shown upon my Exhibit No. 5, it gives us an average cost per ton per mile for intrastate freight of .58572 cents. From the letter of December 4th, from Mr. Cox to me, the receipts per ton per mile for intrastate freight amount to 2.9342 cents per ton per mile, the figures being, ton miles 659,968; revenue \$19,365. If we

372 then divide our 2.9342 cents per ton per mile, receipts for intrastate freight, into our expenses per ton per mile for intrastate freight of .58572, we have almost exactly 20 per cent as the cost of operation, the low percentage being due to the exceedingly high rate per ton per mile received for intrastate freight: the expenses for intrastate freight exceeding very considerably per ton per mile those of all freight, and the earnings per ton per mile of intrastate freight being about eight times as great as those of the interstate.

Q. 36. Mr. Hillman, I hand you the fourteenth annual report of the Norfolk & Western Railway Company, for the fiscal year ending June 30, 1910, and ask that you turn to page 7 of that report and state what percentage the interest, rents, hire of equipment, interest on funded debt, interest on trust obligations, interest on collateral notes, rents, track yards and terminals and miscellaneous; in other words, all additions and deductions from income as shown upon the annual report down to the words "net income" on said page 7, omitting the items of taxes which you have already considered in your Exhibit No. 7, and adding thereto the amounts shown upon the same page as "paid out for dividends on capital stock," would be required to show a further expenditure of 23.013 percent in order to be met.

A. This shows that these items would require, in order to
373 be met, as stated upon this general income account, a further receipt per dollar earned; or if expressed in percentage of the earnings, of 23.013 percent.

Q. 37. Please add to that amount the 71.9553 percent which you say reaches the limit of the operating expenses charged to intrastate business, as shown upon your Exhibit No. 7, and give the sum of these two percentages.

A. 94.9683 percent.

Q. 38. Then upon the basis which you have taken, adding the further item which you have not considered in the income account and as shown upon page 7 of the annual report, you have a surplus of how much for intrastate West Virginia business after meeting operating expenses, taxes and other items of debit to income, as stated?

A. A surplus of 5.0317 percent.

Q. 39. Where does the principal division in the cost of handling freight accrue as between interstate and intrastate?

A. The principal causes of the excess cost of intrastate above interstate per ton mile are, first, the fact of having two terminals in the state; and, second, the smaller average haul in the state over

which these terminals are to be spread. This is exemplified by my method of treating these expenses in my Exhibit No. 5.

374 Q. 40. How much of the expenses would you say were affected by this double terminal and by the lesser average haul?

A. I should think about 65 percent would accrue per ton mile and the balance, 35 percent, probably upon ton basis. That is a rough estimate—approximately accurate—near enough I expect.

Q. 41. Referring to Exhibit D-2, filed with Mr. Coxe's deposition, for the year ending June 30, 1909, will you, in addition to what you have already stated concerning the incorrectness of the earning basis for the proration of expenses, make a further analysis of the results coming from his method in the light of the statements that you have just made?

A. I haven't commented so far very severely upon the basis of using earnings as a general factor for the division of expenses. I consider it totally erroneous. It is only applicable in certain particular cases, and as a general factor it is emphatically the worst factor that could be devised for the division of expenses.

Q. 42. Then you do not consider the earnings basis a fair and equitable one?

A. No, sir; I do not. In making the analysis upon this basis it would show that the expenses of conducting intrastate freight were eight to one, in spite of the fact that 65 percent, as I have just stated, of these expenses are train movement expenses and
375 accrue equally per ton per mile; and yet in the final result there would be between seven and eight times as much expense charged to the intrastate business as there would be to the interstate business.

Q. 43. I understand then from your statement that the basis taken by Mr. Coxe, as shown in his testimony and in his exhibits therewith, as between intrastate and interstate, is one for interstate and eight for intrastate. Is that correct?

A. About that on the freight basis; yes, sir.

Q. 44. How about the passenger?

A. The passenger basis of division as used by Mr. Coxe between interstate and intrastate errs on the other side of the proposition, as he has not charged on that basis enough of the expenses to intrastate; but on the other hand there is a serious error, at least I so consider it, in Mr. Coxe's division of expenses between passenger and freight, and when the passenger expenses arrive on Mr. Coxe's basis in West Virginia, they are loaded excessively and do not show the proper division between freight and passenger, the passenger expenses being entirely too heavy everywhere upon his entire system, including the State of West Virginia.

Q. 45. You may state what, in your opinion, would be a proper basis in its relation to the freight business?

A. It would be upon the basis of taking each of the operating
376 ing accounts and dividing them upon the basis which shows the use of each of the facilities for which the expenses were incurred; that is, if I am handling my intrastate freight twice, I should

double the expense of my station service and charge it against intrastate freight; if I am hauling my intrastate freight only one-third of the distance, I must spread that double expense over only one-third. It don't matter a particle one way or the other whether I get twenty or three for it; it don't alter the fact of the expense in the slightest; it has nothing to do with it.

Q. 46. Then instead of it being one to eight, as contended by Mr. Coxe for the railroad company, what ratio should it be?

A. One to 1.815. In other words, instead of an increase of 700 percent, it should be an increase of only $81\frac{1}{2}$ percent.

Q. 47. As a further illustration of the application of the earnings basis for the division of operating expenses, can you show the effect which would be shown on Mr. Coxe's Exhibit No. D-2 by the raising or the lowering of intrastate rates?

A. I have reference in this to a decision in the Federal Reporter, volume 170, in the case of the Southern Pacific Company v. Bartine, et al., by Judge Farrington. After discussing the matter on page 757, in the table on page 758 he shows what the result would be on using the earnings as a basis for the division of expenses. It seems that using the earnings on the basis which the railroad set up gave a percentage of operation of 123.92 percent. If the company had received according to the increased rates which they were asking, the gross receipts would have been \$159,791.40; the cost of hauling, still based upon the 123.92, which they insist upon regardless of the amount received, which is the earnings basis, would have been \$198,013.49, or the loss would have been \$38,222.09. If the lower rates had been in effect, the gross receipts would have been \$103,042.05, the expenses would have been \$127,689.70, or the loss would have been \$24,647.05. The judge then supposes that they had received but \$10,000 for this movement of freight. On the same basis the expenses would have been \$12,392, and their loss on the \$10,000 income would have been \$2,392. If, on the other hand, they had received one hundred times as much for hauling this freight, or \$1,000,000, the cost of hauling upon the earnings basis would have been \$1,239,200, or the freight loss would have been \$239,200. As the judge expresses it: "So long as it costs 123.92 cents in expense for every dollar of income, the expense will increase faster than the earnings. The condition is not nearly so good as that of a rear-end lantern racing with the headlight."

Q. 48. Would the operating conditions or the amount of tonnage be changed in this computation?

378 A. Not at all, sir. If we would suppose that the Legislature should state that the intrastate rate should not be more per ton per mile than the interstate rate per ton per mile, Mr. Coxe's percentage, or the application of the earnings, as Mr. Coxe has done in order to determine the operating expenses, would reduce our operating expenses about one-eighth. If, on the other hand, they should adopt this basis which was adopted in the case I have just read, of three to one, the expenses, as shown upon Mr. Coxe's basis, would be reduced about 60 per cent, and he would have an operating percentage and operating cost of only about 40 percent of that which

he has already shown without ever changing in any sort, shape or way a single penny of the expenses. And that is the reason I say, as might you of the operating expenses as a general factor, that the earnings are absolutely unreliable and ought not to be used, and cannot be used.

Q. 49. Referring to Mr. Cox's Exhibit D-1, filed with his deposition, what have you to say with reference to the amount of expenses charged up by him to the passenger business?

A. I would state that the expenses charged by Mr. Cox to the passenger business are excessive; that they are too high, and that he proves by them that the passenger business in toto is not a paying business, and then having that fact established it makes no
379 difference in the result if we do use the earnings basis for the division between interstate and intrastate, as the total passenger business is already at a loss. Then following upon the same basis of earnings, it shows, to my mind, untruly in regard to interstate and intrastate freight business.

Q. 50. What effect did this overcharge of expenses to passenger business have on his Exhibit D-2?

A. I stated that he brought over his total passenger business into the State at a loss, both interstate and intrastate, and it was then not any particular question as to that loss if we did take it on the earnings basis we would still show a non-remunerative business; and then, of course, if we would accept that basis of division of expenses for passenger, that is the revenue basis, and then take it on the freight, we would be unable, on account of the 7 to 1 basis—on the $7\frac{1}{2}$ to 1 basis of earnings, to charge $7\frac{1}{2}$ times as much to freight traffic, intra-state, as we did to the freight traffic, interstate, or all. I claim, in other words, that the earnings for the basis of the expenses should not be used. There are only very few expenses to which it can be applied.

Q. 51. Ought Mr. Cox's basis be applied to this case?

A. No, sir, I don't think it should be applied to this case; I have stated that pretty fully; and I would state that had the division
380 between freight and passenger been what I considered equitable, Mr. Cox would then have been doing himself an injustice in the passenger business in dividing it this way, between interstate and intrastate, had he brought over his freight and passenger expenses upon what I consider the proper basis.

Q. 52. Have you examined Mr. Cox's Exhibits B-1 and 2, and C-1 and 2?

A. Yes, sir.

Q. 53. Will you state whether they are made up on the same earnings basis, in your judgment?

A. Yes, sir. I would state one further thing, and that is, that there is no one factor which can be taken as the factor for the division of expenses between freight and passenger. The very fact that the Interstate Commerce Commission classified their expenses, and that these expenses are under different heads, shows that they were incurred for different commerce and for different purposes, and for the reason that the Interstate Commerce Commission desired

to know these expenses, that, therefore, no single factor could be applied to them for division between freight and passenger.

Q. 54. Mr. Hillman, combining the revenues from both freight and passenger in relation to intrastate West Virginia business, and after allowing the Norfolk & Western all reasonable operating expenses, and after deducting interest and dividends, what per cent is left to be set apart for surplus, as shown by your exhibits filed with your deposition in this case?

A. After allowing the 23.013 per cent, shown upon page No. 7 of their annual report as being necessary for that purpose, and out of their total receipts, in order to cover the net charges to income and the dividends, there is left but little over 5 per cent, or, to be exact, 5.0317 per cent, to be carried to surplus.

Q. 55. How do you arrive at the per cent of 5.0317?

A. I have shown upon Exhibit No. 7 that the operating percentage of freight and passenger, plus the taxes, amount to 71.9553 per cent. By reference to page 7 of the annual report of the Norfolk & Western road it will be seen that the total operating revenues for 1910 were \$35,053,870.42; it will be seen also that the operating expenses, which we have already considered on Exhibit No. 7, were deducted. To this net sum were added certain general items of credit to income, and from this net result were then deducted certain items of debit to income, included in which were the taxes, which we have already considered under Exhibit No. 7. The net result of these two, then, show the total amount which we should deduct from income net in order to meet the additions which are set forth on page 7 of the fourteenth annual report. In addition to these items deducted directly from the income, there are items which show the dividends paid upon the capital stock—4 per cent on the preferred and 5 per cent on the common. These make an additional amount which it is supposed in this latter computation that the intrastate traffic is bound to make up. These amounts which I have mentioned amount to 23.013 per cent on the total operating revenues. I have added this 23.013 per cent to the 71.9553 per cent, shown upon my Exhibit No. 7, and it produces the result that it costs for these two items 94.9683 per cent, leaving, as I have said, the surplus of 5.0317 per cent.

Q. 56. Will you kindly refer to question 51 and the answer thereto by Mr. Cox, found on page 18 of his deposition in this case, and state whether the method of determining the passenger revenue is a correct method, and could the receipts be definitely determined in that manner?

A. Yes, sir, they could. The method outlined by Mr. Cox defining those earnings is correct for the finding of the passenger revenue, and can be definitely determined from the records and books of the company.

Q. 57. Refer to question 52 and Mr. Cox's answer thereto, as found on page 19 of his deposition, which relates to the determination of the net passenger revenue, as shown by that answer, and state what you have to say about the determination of the expenses on that method?

A. There again is the equalization of all expenses, passen-

ger, upon the same basis; and I have the same criticism as I have passed heretofore upon that basis of determining the passenger expenses, that is, that the common expenses are not divided upon the proper basis between freight and passenger, showing an excessive cost to passenger in his exhibits; and further, when he comes to a division between intrastate and interstate, he again uses the earnings basis to determine the amount of expenses; and I consider that his answer there merely shows his method of determining and does not show from the books and records of the company the expenses in the exact manner that the earnings can be determined, it being to a considerable extent an apportionment of expenses and not the direct expenses themselves. They could not be shown from the books and records of the company without the intervention of a proration; and, therefore, the answer to question 52 is not as authoritative as the answer to question 51.

Q. 58. Refer to question 67 of Mr. Coxe's deposition, found on page 26, and state what you have to say about the question of additions and betterments, as to what they have to do with the operating expenses?

384 A. In that respect in 67 the additions and betterments are taken in as a portion of the expenses, and are so expressed upon Mr. Coxe's Exhibits B-2, and D-2: they are kept separate by themselves. I would say that I do not consider that these betterments are entitled to be deducted from the operating expenses, or considered in the same nature as an operating expense, when the investigation of the sufficiency or insufficiency of any rate is under fire. They are in the nature of additions to the property, and as such are paid for from the operating expenses, or from the gross receipts, and should be considered by the stockholders in the nature of an improved security, and they should not be allowed to make up their improved security from the earnings. It is a question as to whether they shall or shall not be recognized in the issuance of further securities upon the line of the road; and that is a question for the stockholders to decide themselves—whether they will take the accumulation to the value of their property, by the enhanced value of the property, or whether they will issue stock to cover afterwards; but they have no place in the determination of operating expenses—they are a capital account. It may be good business to put them there, and undoubtedly it is, but it is not good business as far as the public is concerned that we should pay for them.

385 Q. 59. What have you to say with reference to Mr. Coxe's answer to question 64, in his deposition, especially that part of it where he elaborates on the further expense item?

A. That was included in my criticism of question No. 67; the two fit in.

Q. 60. Please refer to Exhibit C-2, filed with Mr. Coxe's testimony, and say if the passenger earnings of \$289,943.22, to which Mr. Coxe refers in his answer to question No. 78, take into account any other passenger earnings?

A. None excepting the passenger revenue; that is, the direct

returns from the passengers themselves. The mail, express, baggage, etc. are omitted from that amount which he mentions there.

Q. 61. If the other passenger earnings were taken into account would it not increase the passenger revenues?

A. It would, yes, sir.

Q. 62. Then if you would apply that increased earnings to the capital necessary to conduct intra-state passengers, as given by Mr. Cox in his answer to question No. 78, of \$1,391,902.21, you could then increase his per cent of return, could you not?

A. Yes, sir; if, as stated in his answer on page 30, the set capital allotted to the transportation of intrastate passenger business was \$1,391,902.21, and you would apply these increased earnings to that, you would, of course, obtain an increased percentage of earnings.

Q. 63. On page 40 of Mr. Cox's testimony, in answer to question No. 106, does he include in his answer the other passenger earnings?

A. No, sir, he does not. It is the amount of the passenger revenue, not the passenger earnings: the passenger revenue being that derived from the passengers themselves, and the earnings from the passengers and their by-products.

Q. 64. From your examination of the books of the Norfolk & Western Railway Company, what have you to say as to the cost of earning a dollar of intra-state West Virginia passenger business as compared with the cost of earning a dollar of interstate passenger business?

A. The expense of earning a dollar of intrastate passenger business is in excess of the cost of earning a dollar of interstate passenger business. I can make computations to give that approximately, but I have not done so. It would be necessary for me to divide my passenger miles into my expenses for intrastate and interstate. I could do that, though, if it is desired and give you the figures.

Q. 65. Will you make such a computation and include it in your testimony?

A. Yes, sir. It is as follows:

Q. 66. Do your accounts, as shown by your exhibits, take into consideration any part of the passenger fares received from interstate travel?

A. No, sir; the interstate is entirely eliminated from the earnings, and by my method, from the operating expenses. None of the West Virginia proportion of the interstate traffic is taken into account, either in the earnings or in the method I have of dividing the expenses.

Q. 67. If West Virginia's proportion of the interstate travel had been taken into your computations, would it not have materially increased the passenger revenues?

A. Yes, sir; it would have increased the passenger revenues both gross and net.

Cross-examination.

By Mr. LUCIEN H. COCKE:

Q. 1. As the result of your investigation and study of the books

and papers of the Norfolk & Western Railway Company, in connection with the existence or imposition of a 2-cent intrastate passenger rate in West Virginia, is it or is it not your opinion that such a rate is remunerative to the railway company, considering the revenues derived therefrom and the expenses, which, in your judgment, should be charged against such revenues?

388 By Mr. CONLEY: Objected to.

A. In regard to the question of the remuneration of the 2-cent rate in West Virginia, I would say that the rate is remunerative as regards the direct operating expenses and taxes chargeable against the 2-cent passenger receipts; that when we consider the plant that is necessary to operate the passenger business and the return upon that plant, the rate is not remunerative.

Q. 2. In other words, as I understand, the 2-cent rate about reimburses the Norfolk & Western Railway Company the actual cost incident to doing the service of conducting and carrying the passenger, but gives practically no return to the railroad company for the capital invested and the risks incident to the performance of the service?

A. I should say that the percentage left after the payment of the operating expenses and taxes, is, in my judgment, an inadequate return for the capital employed in the passenger business.

By Mr. CONLEY: Does not your last answer depend upon the method or manner in which the passenger revenues and passenger expenses are adjusted?

A. Yes, sir; it depends upon the method in which the passenger expenses are adjusted between inter and intra; the passenger receipts, inter and intra, are the fixed quantity. It also depends
389 upon the adjustment of the by-products of the passenger business, such as mail, express and baggage.

By Mr. COCKE: Your opinion is based on the adjustment that you have of those respective elements?

A. It is, yes, sir.

At 5:30 o'clock p. m. the further taking of these depositions was adjourned by consent until Tuesday, March 12, 1912, at the same place and between the same hours.

390 The further taking of these depositions is continued on this the 12th day of March, 1912, until Wednesday, the 19th day of June, 1912, at the same place and between the same hours, by agreement of counsel.

Pursuant to the foregoing adjournment, the further taking of these depositions is resumed this the 19th day of June, 1912, at the same place and between the same hours.

Whereupon C. W. HILLMAN was recalled for cross-examination, and testified as follows:

(Examined by Mr. LUCIAN H. COCKE:)

Statement by Mr. COCKE: The Norfolk & Western Railway Company, without waiving its exceptions to the relevency and competency of the exhibits heretofore filed by the witness, proceeds, through its counsel, to cross-examination.

Q. 1. Mr. Hillman, as I understand from the testimony that you have given as the result of your analysis of the cost of doing the intrastate passenger business in West Virginia by the Norfolk & Western Railway Company, it is your opinion that it costs that company more than two cents to carry intrastate passengers one mile.

A. I have made no computations wherein I have separated the cost of carrying passengers themselves from the cost of carrying the other passenger business or the other business conducted on passenger trains, and I am not prepared from the figures I have made to either affirm or deny the suggestion in your question.

391 Q. 2. You ascertained, did you not, that the revenue that the Norfolk & Western received from intrastate passengers was 1.94 cents per mile?

A. Yes, sir.

Q. 3. And you also ascertained that the expense that the railroad company was put to in carrying each passenger was 2.32 cents per mile?

A. No, sir.

Q. 4. If you divide the amount of expense ascertained by you by the mileage of intrastate passengers, do you not reach the result that the expense was 2.32 cents per mile per passenger?

A. Yes, sir; if we divide the total expenses by the passenger mileage we would obtain a cost of 2.32 cents per passenger mile; but this cost which we have set up here is the cost of conducting the total passenger business of all character, including the hauling of what we term the by-products of the business—mail, express, extra baggage, etc., and the expense is not coincident with the figure of the passenger revenue of 1.94 cents per passenger per mile.

Q. 5. You haven't undertaken in any way to separate the cost of doing the mail and express business which is done in connection with the passenger service?

A. No, sir; not in this case.

Q. 6. Have you ever undertaken to separate the cost of doing the mail and express business in any other case?

Question objected to by counsel for defendants.

A. I have in the case of express only. I have not gone
392 into the mail or carrying of baggage.

Q. 7. From the examination you have made as to the cost of carrying express, which examination you said you have made in other cases, is it not your opinion that the actual cost of carrying an intrastate passenger in West Virginia over the Norfolk & West-

ern Railroad is in excess of two cents per mile, not crediting the results of either mail or express to the passenger business?

Question objected to by counsel for the defendants.

A. It would be very hard to predicate an answer to that question in the absence of data on my part or working up on my part of the cost of the mail business. If this is a matter of opinion only, I should say that in rough computation the cost of carrying a passenger one mile in the State of West Virginia was very close to two cents per passenger per mile.

Q. 8. Of course, then, as you have made no analysis of the cost of doing the express business and mail business in connection with the passenger business, but have used the revenue from those by-products as a part of your revenue, your analysis of the cost of doing the passenger business is necessarily incomplete to the extent that that cost would be affected by the cost of these respective items in connection with the passenger service?

A. Yes, sir; supposing, of course, that you refer to the cost of carrying passengers themselves, not of conducting the total passenger business.

Q. 9. When you have heretofore testified that 97.4203 per cent. of the passenger earnings were consumed in paying the passenger expenses, you have included in those earnings not only the earnings derived from intrastate passenger fares, but also the earnings derived from the mail and express business of the company, and extra baggage?

A. Yes, sir; and also some other slight passenger receipts.

Q. 10. Mr. Hillman, in ascertaining what is the cost of doing the passenger business in West Virginia, I believe that you first attempt to segregate the cost of the freight business from the cost of the passenger business, isn't that a fact?

A. Yes, sir.

Q. 11. In ascertaining this cost you take the 116 primary accounts which are kept by the railroad company and divide the expenses that have been appropriated to each one of those accounts, and then you divide those expenses on some ratio which seems to you to be reasonable. In some cases you divide those expenses on the basis of engine miles, passenger car miles, on gross earnings and in other ways, which have been detailed in your testimony.

A. Each account upon the factor which, in my opinion, bears directly on that account.

Q. 12. As I understand it, there is a great variety—there is great diversity of opinion among expert railroad men and other accountants as to what is the proper unit for such division as applied to these various accounts, isn't that a fact?

394 A. There is a certain degree of diversity in obtaining the total results as chargeable to freight and passenger, as you have suggested in your question. I would like further to state that in a large number of these divisions which are made by railroad companies, they are made for the purpose of comparison only, and are not intended to be accurate or even approximately accurate,

notably the division which is made of allocating directly to freight and passenger all the items that are possible, and of using the general factor of train miles as the divisor of all common items.

Q. 13. It is not infrequently the case, I believe, that a railroad company in endeavoring to separate the cost of doing passenger and freight business to appropriate to each class of business those items of cost which are known to belong to that class of the business, and the revenue, and the expenses to be divided between the two classes of business on the basis of car miles, or revenue car miles, or engine miles. That is a fact, is it not?

A. All of those items are used, and sometimes jointly used.

Q. 14. As far as your divisions are concerned in which you go to a more minute and specific analysis of the division of various items, haven't you changed your opinion in respect to what is the proper division a great many times, in considering the various cases in which you have testified and which you have recited in the beginning of your examination in this case?

A. Yes, sir; there have been certain variations in my
395 method on certain accounts from time to time. The principal one was in the case of the Louisville & Nashville Railroad Company in the State of Florida where the relative passenger and freight weights were used entirely as the factor for division in my Maintenance of Way and Structure accounts. There were two reasons for the adoption of this method at the time, one of them being the severe criticism to which I had been subjected in the Minnesota rate case as to my division of Maintenance of Way and Structure accounts into "wear" and "weather," and the further reason that the percentages on the Louisville & Nashville road in the State of Florida, for the different factors upon which the expense would have been divided had I distinguished between wear and weather, were very slight, being less than one per cent. In consideration of these two reasons, I did make the change of my factor in this case. On another case, the Wheeling & Lake Erie road in the State of Ohio, I used a composite factor of train miles and car miles, for the reason that I had no time to use my other factor which I otherwise would have used; and in this case it was a compromise factor, intended to produce practically the same results. I understand that this analysis of mine, or practically this analysis, has been taken by Mr. Muller and applied in the Pittsburg and Lake Erie case, which is also a coal case, without any credit being given to the author of it. In regard to other changes in the method of

division, they were due to the fact of the further and more
396 minute analysis of these accounts, it having been first by me not deemed necessary to be as minute as was required or seemed to me to be required by the criticisms to which I had been from time to time subjected, and the further changes, outside of those which I have mentioned as general, that is, the Florida case—L. & N.—and Wheeling & Lake Erie, have been in the direction of more accuracy than the original computation.

Q. 15. In this case I notice you have come back to the wear and weather stress that you used in the Minnesota case and abandoned

in the Florida case, and also abandoned, I believe, in the Lake Erie case—asserted again in this case as the basis for computation.

A. Yes, sir.

Q. 16. Then, as I understand it, Mr. Hillman, there has not been established among accountants any standard bases for the division of these accounts, in order to ascertain the cost of doing any particular class of business?

A. No, sir. It is a matter which has not yet been determined upon as to an accurate method. I do not know of any concerted action looking to that point as yet made by railroad accountants.

Q. 17. You testified, I think, before the Interstate Commerce Commission in what is commonly known as the Boileau case?

A. No, sir; I did not testify in the Boileau case.

Q. 18. Now, in the Boileau case it appears that there was
397 a summary made of the theory of divisions made by John G. Drew, Frank Nay, B. A. Worthington, C. W. Hillman and J. P. Muller. You are familiar with the names I have just read, and will you state who those gentlemen are?

A. Mr. Drew was at that time comptroller of the Great Northern; Frank Nay was comptroller of the Chicago, Rock Island and Pacific Railway Company; Mr. Worthington is receiver of the Wheeling & Lake Erie Railroad Company, and Mr. Muller was an accountant of the Interstate Commerce Commission at that time, but left them and established an accounting firm.

Q. 19. And the Mr. C. W. Hillman referred to in that case is yourself?

A. Yes, sir.

Q. 20. Each of those gentlemen you recognize as an accountant of character and ability, do you not?

A. Yes, sir.

Q. 21. I will ask you to state what were the divisions on some of the items of account which have to be divided in order to show the cost of doing the freight and passenger business, as testified to by these accountants whose names I have mentioned and whose testimony is summarized in a brief filed before the Interstate Commerce Commission in the Boileau case. I will ask you to give the summary of the division made under Maintenance of Way of cost of ties.

Counsel for defendants objected to the witness being required to testify from a brief prepared by counsel in an entirely separate case from the one in which he is now testifying, the
398 witness having had no part in the preparation of such brief.

In reply thereto, counsel for complainant states that the witness has testified that he is familiar with the various divisions of accounts made by other accountants and the brief is given to him merely for the purpose of refreshing his own recollection as to the divisions summarized in the brief.

Counsel for the defendants object to the witness testifying from the brief under any circumstances, because he had no part in preparing the same and can not know whether it is correctly prepared.

A. I divided the cost of ties between freight and passenger on the basis that $17\frac{1}{2}$ per cent. was due to wear and $82\frac{1}{2}$ per cent. due to weather, the wear proportion being divided upon the relative train weights, freight and passenger, and the weather proportion upon the gross earnings.

Q. 22. How did Mr. Drew divide the depreciation of ties?

A. I do not know.

Q. 23. Will this memorandum refresh your mind?

A. If Mr. Muller is not more accurate in Mr. Drew's method than he was in some of mine, I could not say. I would state, however, in this case he is accurate and that Mr. Drew does use the revenue service locomotive miles.

Q. 24. How does Mr. Nay divide the same item?

A. Mr. Nay divided it on the revenue train mile basis, which was the basis used by Mr. Nay in the Missouri rate case. I happen to be familiar with that. Mr. Nay subsequently, in the Nebraska rate case, made the distinction between wear and weather, and used that in his division of expenses in that case. I happened to have occasion to examine that also, and found that he had used the wear and weather stress.

Q. 25. What percentages does he use for wear and weather?

A. My recollection is that he used $33\frac{1}{3}$ per cent. for wear and $66\frac{2}{3}$ per cent. for weather. It may possibly have been 25 per cent. wear and 75 per cent. weather. It was either one or the other.

Q. 26. How did Mr. Worthington divide this item of tie account?

A. I am not familiar with Mr. Worthington's method.

Q. 27. How did Mr. Muller the expert accountant of the Interstate Commerce Commission, divide this same item?

A. One-half on locomotive miles, including switching, and one-half on the car miles, which was the compromise basis which I mentioned as having been used in the Wheeling & Lake Erie case.

Q. 28. As I understand it, in the Wheeling & Lake Erie case you didn't have time to work out your own theory and adopted Mr. Muller's theory?

A. No, sir; in the Wheeling & Lake Erie case I did not have time to finish the computations I was engaged upon and was requested by the Commission to make a division between freight and passenger and submit the papers, and I made that compromise percentage, which seemed to me would hit the average result. I made it myself. Mr. Muller afterwards adopted it.

Q. 29. Now, take the next item under Maintenance of Way, to wit, rails. How do you divide the expenses of rails as between freight and passenger?

A. 90 per cent. due to wear, divided on the relative weight basis, freight and passenger; 10 per cent. weather, divided upon the relative gross earnings, freight and passenger.

Q. 30. Will you state how Mr. Drew divided the same account?

A. My recollection is that Mr. Drew divided it on the revenue locomotive mileage.

Q. 31. How did Mr. Frank Nay divide the same account?

A. On the revenue train miles.

Q. 32. How did Mr. Worthington divide it?

A. I don't know.

Q. 33. You are not willing to testify as to that?

A. No, I don't know.

Q. 34. How did Mr. Muller divide the same account?

A. I think probably on the same basis he divided his ties.

Q. 35. That is to say, $\frac{1}{2}$ on locomotive miles and $\frac{1}{2}$ on car miles?

A. Yes, sir.

Q. 36. Mr. Hillman, on this account of rails, have you been able to satisfy your mind that 10 per cent. of the depreciation of rails is due to weather?

401 A. Yes, sir; I should say so.

Q. 37. Have you ever examined any rails that have been in the Norfolk & Western track for forty years?

A. No, sir; I have not.

Q. 38. You have had brought to your attention in cases in which you have testified, and I believe notably in the Florida case, that there are rails in service today, where they were subject to very little use, which had been in service for fifty years; isn't that a fact? And in that case they were subject to the depreciation of weather, but practically subject to no depreciation because wear as they were on a practically unused sidetrack or so seldom used that the wear would be very slight.

A. I don't recollect that being brought up in the Florida case, although they did bring up everything that could possibly be brought up; but I don't really recall any instance coming to my mind where the life of a rail having been an unused rail was that long.

Q. 39. Well, now, if we can show in this case that there are rails in the Norfolk & Western track that have been in use for 40 or 50 years, but at a place where the wear is very slight and they are still good rails, would you not be disposed to admit that this distinction of wear and weather, so far as the rails are concerned, is somewhat visionary?

A. No, sir. I might be, however, induced to either reduce or increase the percentage due to the weather operation. The 10 per cent. was taken by me in the Minnesota rate case first, and afterwards confirmed by an estimate made by the Engineer of the Louisville & Nashville road as testified to in the Alabama rate case.

Q. 40. I don't understand, Mr. Hillman, that you are or ever have been a practical operating man of any railroad?

A. Yes, sir; I have been.

Q. 41. What part of your experience do you claim represents your activity as a practical operating man?

A. From 1876 to 1891 on the Cumberland Valley road, branch of the Pennsylvania.

Q. 42. In what capacity?

A. In a number of capacities, first serving on their engineering corps, as telegraph operator, ticket agent, freight clerk, yard clerk,

weighmaster, agent, superintendent's clerk, car accountant, conductor, brakeman, both freight and passenger, which latter service, however, was entirely to qualify me for the position of first assistant train dispatcher and then train dispatcher.

Q. 43. I don't understand that in any of these capacities you were charged with the responsibility of purchasing rails or ties or the construction of bridges or the superintendence of Maintenance of Way or Structure?

A. No, sir; I had none of those responsibilities.

Q. 44. Hence you can not make any of these divisions upon the result of your practical experience day in and day out, as to the cost of the different items that go into the railway accounts, can you?

403 A. Not so far as Maintenance of Way and Structure goes.

Q. 45. Now, Mr. Hillman, when you undertook to separate the cost of doing the two classes of business on the Norfolk & Western road, I don't understand that you took the business of that road for one year and allocated it, but you took a typical month, as you claim, and allocated the cost for that month, and then multiplied it by 12 for the purpose of getting the cost for the year, or you may in some of the accounts have taken it for two months, May and November, and then multiplied the result by six. I don't understand which method you adopted, and I would be glad to have you state that on the record here again, although you may have stated that here before.

A. The division was made for two months, May, 1910, and November, 1909, both included in the fiscal year ending June 30, 1910. I would also state that the expense as found for those two months was not multiplied by six to obtain the expense for the year, but that the cost was established for those two months, and then the resultant cost as shown by those two months was applied to the total year's business; also, that in certain of these accounts, notably the maintenance of Way and Structure accounts, the division was made upon one-sixth of the year's expense for the two months, and not on the amount which was expended during those two months. In a similar way the Maintenance of Equipment expenses were brought

404 down to an average month, based upon the mileage of the cars in various equipment, which was established during the year. The percentage which showed all these various accounts of equipment for the two months as compared with the year was used to bring the expense into the two months; in other words, as you suggested in these two questions, we brought the monthly expense over into the two months and did not show the expenditures during the two months.

Q. 46. Mr. Hillman, as the result of that mode of calculation, you would find out the percentage of expenditures during the month in question which were expended in doing the traffic of that month and its relation to that traffic; if that traffic had been very heavy a portion of the expenditures would be increased?

A. Yes, sir; all your traffic expenses would be increased somewhat, but not greatly. The transportation accounts would bear

a very direct relation, in a large portion of them, to the increased traffic. The Maintenance of Equipment would also be heavier, the equipment being used more in those months. The Maintenance of Way and Structures and the General Expenses would not be affected to a material degree.

Q. 47. If it is a fact that the month selected by you had an excess of traffic over the average, would it not result that your unit of cost would be reduced on account of your excess traffic, and would not the accuracy of your final result depend upon whether or not the month selected by you was in fact an average month?

A. No, sir; it would not affect the result to any appreciable extent, for the reason that I have guarded against that very
405 thing in my transportation accounts. It would leave the only ones that could be affected at all the Maintenance of Way and Structures and the General Expenses, and they would be affected very slightly by an increase or decrease in traffic.

Q. 48. If as a matter of fact it should appear that the character of the traffic of those two months was such as not to represent an average, wouldn't it necessarily affect the figures which you have furnished in this case?

A. No, sir; to a very slight extent only, not material.

Q. 49. Tell us now in what respect they would be affected?

A. They would be affected to the extent of the weights passing over the road, where the weight basis was applied to the Maintenance of Way and Structures accounts; they would be affected in regard to agents' salaries in Conducting Transportation accounts where the agents were paid a monthly salary. The same would not apply to roustabouts around the stations because they would be employed or discharged according to the amount of labor necessary to be performed. They would be affected in regard to telegraph operators, clerks and attendants at stations to a large extent, although they could be varied by the discharge of clerks and attendants in light times. It would vary in the case of the crossing flagman, gate men, switch-tenders and interlockers. It would not vary in the main Conducting Transportation accounts, such as trainmen, engine-
406 men, fuel and water, as these are dependent upon the trains and the number of trains is dependent upon the traffic which is to be handled. There would be a slight variation from this latter statement where the traffic would fall so low that trains would have to be run to handle it yet not be able to fill out the complete capacity of the trains. The General Expenses would affect this result, but in this case, as in others, discharge of certain general office men could be made when traffic is light, and it is so done; but that would be a small saving only. This is a general statement of the case.

Q. 50. I don't think that you discussed Maintenance of Way and Equipment, did you? How about that?

A. On Maintenance of Equipment, the expense which we took over in those two months was based on car miles and engine miles which were used during these months, and is therefore typical of the volume of traffic passing over the line in these months, and I consider that it doesn't affect the final result.

Q. 51. If there was an excessive use of equipment during the month in question, wouldn't that affect the final result?

A. Yes, sir; but you understand that the excess use of the equipment would be dependent upon the volume of traffic which presented itself for transportation; otherwise, it would be bad rail-roading, which I do not think exists on your Norfolk & Western.

Q. 52. How about your Maintenance of Way? You haven't
407 discussed that yet.

A. Yes, I discussed that at the first part of the preceding paragraph, where I stated that the Maintenance of Way would not be affected to a very great extent on account of a large portion of it being upon the weather basis, which is a time unit, and not a wear factor; in so far as the amount due to the wear goes, the taking of 1/12 over into the Maintenance of Way and Structure accounts would affect the total result if the traffic were heavier during these two months.

Q. 53. How many items do you divide on the basis of your gross earnings, which items would be affected in the event the traffic for the month in question was in excess of or less than the average traffic?

A. My recollection of that is that about 52 per cent. of the total Maintenance of Way and Structure expenses would depend upon the weather conditions—I will make that 51 per cent. This is based upon the fact of my calling that in roadway and track expenses, where I counted up the expense divided between wear and weather there was 48 and a fraction per cent. of this account due to wear. On page 16 of my testimony in chief in this case appears this statement: "We find that the percentage of wear as against weather in these accounts which I have mentioned is 48.8606."

Q. 54. Then, as I understand it, 48 per cent. of that class of expenses which are based upon wear would be dependent as far as
408 accuracy is concerned on whether or not the month in question was a good month for traffic or a bad month?

A. Yes, sir; it would depend upon the volume of traffic.

Q. 55. Now, how would the adjustment that you have made affect the short months, take February, for instance, less than 30 days, or a month with 27 working days as against another with 25?

A. The working days in a month are practically obsolete in railroad accounts now. Sunday is a very little different from any other day, save in general office work, and then they have to catch up with the work and it doesn't make any difference. In the case of the month of February, I would never use that month, for the reason that it is a short month. If, however, you take the two months we selected and multiply that by six, you would find that we have 366 days instead of 365 days, which is not an appreciable difference.

Q. 56. When you separate and in order to separate the cost of doing passenger and freight business on a railroad year in and year out, you would not undertake to make your separation based on what you call a typical month would you, if the year's business was reasonably accessible?

A. I would not. I should prefer the broadest basis possible, and

in some cases, notably injury and damage accounts, I would prefer a series of years as a basis rather than one year.

Q. 57. Now, Mr. Hillman, isn't it a fact that if you take a so-called typical month as a basis for your calculations they are not only subject to the objections which you have just recited
409 in the several statements preceding, but also subject to the further objection that in the event an error should occur in your monthly allowance of expenses your error is multiplied twelve times when it is applied to the whole year?

A. If the computations are made in that way, yes; but the computations are not made in that way. We have compared, or I have compared in my statement the earnings and the expenses for the two months and obtained the relation existing between them, and therefore the ratio would be only affected to the extent of the months used. I have not expanded it into the year's business.

Q. 58. But yet the railroad company has to pay the expenses for the year, regardless of what divisions you may see fit to make, and wouldn't it result in the error being magnified 12 times when it comes to the actual payment of the cost of the business which has been separated by you on the theory which you have detailed?

A. It would not magnify it 12 times. It would simply repeat it 12 times. If there was an error, for instance, which should increase my operating and tax cost, as shown on Exhibit No. 6, to 98 per cent. instead of 97.4203 per cent, it would not affect the total result for the year save that on each month there would be .5797 per cent on each month, or that much on the total year's business. It would not be 12 times .5797 per cent.

Q. 59. In other words, the percentage would not be magnified, but the amount of money represented by the error would be
410 magnified 12 times?

A. Yes, sir; in other words, there would be each month a larger percentage expended than is shown here, and it would be the application of, for instance, 98 per cent. to the total year's business instead of 97.4203 per cent. to the total year's business, in order to represent the operating expenses and taxes. Of course, it is understood that the 98 per cent simply is a supposititious figure.

Q. 60. Of course, calculations based on taking a portion of a year are always subject to the criticisms which you admit are reasonably correct?

A. Yes, sir; and it was for that very reason that I made the adjusted expenses which are shown in column No. 1 of my Exhibit No. 2.

Q. 61. But yet the liability to error which you have just recited will occur with the adjusted items just as much as they would with the items of an individual month?

A. Yes, sir; there is always the same liability to make errors.

Q. 62. Mr. Hillman, if you refer to your Exhibit No. 3, my understanding is that that exhibit purports to ascertain the passenger expenses for the months of November, 1909, and May, 1910, on the Pocahontas and Kenova divisions, and that for the purpose of ascertaining the expenses chargeable to West Virginia for the

passenger business during those two months you have ascertained the mileage of the respective divisions in West Virginia as compared to the entire mileage of the respective divisions, and
411 appropriated those expenses to West Virginia on the ratio of the mileage in West Virginia to the entire mileage of the division. Am I correct?

A. Yes, sir.

Q. 63. In your division of the expenses on the Kenova division, I notice that you appropriate of those expenses in West Virginia 82.39 per cent. of the entire expenses, and this, I believe, is based upon the amount of mileage of that division in West Virginia?

A. Yes, sir.

Q. 64. In checking up the appropriations under the last column of that exhibit, which represents 82.39 per cent of the entire expenses of the whole division, we are unable to find that the figures in that column represent 82.39 per cent. of the entire expenses represented in the column just preceding the last; in other words, it appears according to our checking that under the general item of Maintenance of Way and Structures the 82.39 per cent obtains, but that under the succeeding heads of Maintenance of Equipment, Traffic Expenses, etc., quite a variety of percentages are used which are not in accord with the heading of the column nor your explanation of the heading, as appears on page 33 of your testimony. Will you please explain that situation so that we may understand it?

A. With reference to the question which is asked, I would say that my statement on page 33 of the direct testimony is in fault in that it does not fully show the method pursued upon the
412 Kenova division. Upon the Pocahontas division it showed 94.4 per cent. because that much of the division was located in the State of West Virginia and we were without any other data from the books of the company upon which to make this division. Upon the Kenova division, however, we had other data upon which to make this division, and which was used outside of the Maintenance of Way and Structures expenses. The Maintenance of Way and Structure expenses were taken upon the basis of the track mileage, 82.39 per cent to the State of West Virginia, as stated upon my direct examination, page 33. Under Maintenance of Equipment accounts, however, we had the car mileage and engine mileage furnished us on the books of the company, splitting the Kenova division into West Virginia and Ohio, that is, from East Williamson to Kenova and from Kenova to Portsmouth. The percentage of the engine mileage in West Virginia amounted to 61.5315 per cent, and upon this basis accounts 25, 26 and 27, the Steam Locomotive Repairs, Renewals and Depreciation, were divided. The passenger train car percentage shows the percentage of 63.097 per cent assigned to the division from East Williamson to Kenova, and that percentage of the passenger train car repair, renewals and depreciation was assigned to the State of West Virginia. The books show that 62.4283 per cent of the freight car mileage accrued, upon this same division, in the State of West Virginia from East Williamson

to Kenova, and the proportion of the freight car repairs was divided upon this basis to West Virginia. The Work Equipment accounts, 43, 44 and 45, were divided upon the basis of track mileage, viz: 82.39. The remaining accounts in this block of expenses, viz: 24, Superintendence; 46, Shop Machinery and Tools; 48, Injuries to Persons; 49, Stationery and Printing, were divided upon the basis of all the other accounts in this block of expenses which assign 62.7068 per cent. to West Virginia.

Passing on to traffic expenses, we have the expenses divided on the basis of the earnings, respectively in West Virginia and in Ohio, of the Kenova division, which percentage is 64.383 per cent., the total of the transportation expenses having been assigned to West Virginia upon the basis of the passenger car miles to 62.4283 per cent. I fear here that I will have to make another computation, as the freight car percentage which I quoted as being the amount upon which the freight cars were divided was the passenger car percentage, after making an allowance for the amount of material carried on company trains, of .415 per cent. The General Expenses were divided upon the basis, which we have used heretofore, of all the other expenses up to this point, which assigns 65.38 per cent. of the General Expenses to the State of West Virginia.

Q. 65. The result of your last answer is, as I understand it, that in ascertaining the expenses of doing the passenger business in West

Virginia, as far as the Pocahontas division is concerned, you divided your expenses on the basis of the mileage of that division in West Virginia, and so far as the Kenova division was concerned you divided the Maintenance of Way and Structures on the basis of the mileage in West Virginia as compared to the entire mileage of the division, and so far as all of the remaining expenses were concerned you divided those in a variety of ways, namely, by engine miles, train miles, and other modes of division that seemed to you appropriate?

A. That seemed to me appropriate and to bear directly upon the expenses involved.

Q. 66. And the result obtained by the different modes of apportionment on the two divisions involved in your investigation must necessarily be inaccurate, must it not?

A. Yes, sir; inaccurate in the sense of mathematical accuracy, but not in the sense of practical accuracy, at least so far as the Kenova division would go. I regretted very much that I was compelled to take the 94.4 per cent. as representing the Pocahontas division expenses in West Virginia, but there seemed to be no other way out of it than that.

Q. 67. You have used different theories of apportionment.

A. I would hardly call them different theories of apportionment. I have apportioned the expenses in different manners, for the reason that in the cost of the Pocahontas division I had no details to make the same apportionment which I had upon the Kenova division. I call it rather a bending to necessity than a change of method. It was only to make that distinction that I answered your question as I have.

Q. 68. Mr. Hillman, I believe in addition to making an attempt to ascertain the cost of doing intrastate passenger business in West Virginia you have also undertaken to ascertain the cost of doing intrastate freight business, have you not?

A. Yes, sir.

Q. 69. When were you requested to make up a statement of the cost of intrastate freight business?

A. It was some time after we had left your comptroller's office, and if my recollection serves me, it was not very long before the hearing, although it had been suggested to me previous to that time that I should separate inter- and intrastate freight, but I was unable to do so for economic reasons connected with the State of West Virginia.

Q. 70. Had you finished your passenger report at the time you were requested to make up the freight report?

A. I don't know whether I had finished it or not. I will say, however, in that regard, up to that time the State of West Virginia had not been informed of any of the results and that the request came from them to do that other work if it was a possibility to do it. I can not say whether or not at that time I had reached the final conclusion.

Q. 71. For the purpose of illustrating your theory of the cost incident to the conduct of the intrastate business in West
416 Virginia, I believe you have filed your Exhibit No. 5. Is that not true?

A. Yes, sir.

Q. 72. This undertakes to ascertain the expenses of the intrastate freight business for the same months of November, 1909, and May, 1910?

A. Yes, sir.

Q. 73. I believe it is generally accepted that the cost of doing intrastate freight business and intrastate passenger business exceeds the cost of doing all other business of any railroad?

A. Yes, sir.

Q. 74. The elements, according to your testimony, as I understand it, which produce an excess cost in doing the intrastate freight business are two, viz: the necessary existence of two terminal charges to the intrastate business and the fact that the average haul of the intrastate freight is only one-third as long as the average haul of all other business over those divisions?

A. Yes, sir; that is correct when we consider the interstate business with reference to only one state. I want to define that, because every piece of freight must have two terminals, but when considered with the state as a unit interstate would have but one as a general proposition.

Q. 75. The only elements which you have considered in fixing the amount of excess cost are the elements just mentioned, to-wit,
the subjection of intrastate freight to the cost of two terminals,
417 and because of its being carried on a short haul whereby the expenses would be distributed over less mileage, and hence would rise by reason of that fact?

A. Yes, sir; the static expenses, as we call them, would be distributed over less mileage and would be heavier per mile carried.

Q. 76. You have treated the entire road of the Norfolk & Western in West Virginia as being main line track?

A. No, I can hardly say that I have done that. I have treated it as a unit, whether main or branch.

Q. 77. And your figuring has been based on the unit of so many miles of track and so much business, regardless of any differentiation as to whether some of that business was done on branch line at excess cost and some done on main line at average cost?

A. Yes, sir. I have made no distinction between the branch and main line.

Q. 78. Do you not think, as a general proposition, that the intrastate freight business is necessarily to a large extent operated at branch line expense and not main line expense?

A. No, sir. The main difference in the cost accruing between branch line and main line, or, I might say, between what we call way freights and through freights, is due to the less than carload stuff which is carried on trains, as the excess wages paid to the men and the excess crews carried on way freights is due to the fact
418 that they carry peddling or less than carloads.

Q. 79. Isn't it due also very largely to the fact that in intrastate freight you don't have the benefit either of your car capacity or your tractive power of the engines?

A. The question of car capacity is due entirely to less than carload freight, whether it be intra or inter, I don't know. There being not many distributing points for less than carload stuff in the State of West Virginia, I would omit that from my computation, considering that l. c. l. freight must necessarily be largely interstate in the State of West Virginia. With reference to the second part of your question, as to the tractive power of the engine, there is undoubtedly an expense which would accrue to the short haul possibly from not working the engine to its full capacity. It might be possibly from the distribution of traffic—that these drag freights or pick-up freights coming in along the road would be unable to keep the tonnage full on account of the flow of traffic from different points. But I would say, as a general proposition, there would be a difference—the short haul traffic costing more than the other on this account.

Q. 80. As a matter of fact, taking all the elements into consideration, isn't it reasonable to suppose that freight which is handled on a branch line of very thin traffic is done at an expense four or five times or perhaps eight or ten times as great as the same volume of traffic done on the through trains of a road with a busy main
419 line?

A. No, sir; that is not my experience. I should say that the branch line cost per ton mile would be not to exceed two and one-half times the main line through cost.

Q. 81. Those are about the figures which you give in your exhibit, are they not, as to the excess cost of intrastate freight business in West Virginia?

A. I don't know. I haven't made the computation per ton per mile.

Q. 82. Don't you say that the cost of doing intrastate freight business in West Virginia is 5.95 mills per ton per mile?

A. I made the cost per ton per mile for intrastate freight .58572 cents or practically 5.86 mills.

Q. 83. Now, do you not attribute the excess cost which brings the cost of doing intrastate freight up to that sum wholly to the two causes which you assign as reasons therefor, viz: the two terminals and the lesser haul?

A. It is based entirely upon them.

Q. 84. Now, if in addition to having the two terminal charges and have- the short mileage that freight, or a substantial portion of it, is hauled at branch line expense, do you say that that freight wasn't hauled at any additional excess cost?

A. It was hauled at an additional cost provided it was hauled at branch line figures.

Q. 85. Did, rather do I understand you to claim that a
420 less than carload shipment that is carried in a full train from Kenova to Welch, two points on the main line of this road, can be handled at the same expense that a similar amount of traffic on a ten mile branch of the railroad which perhaps runs local freight with four or five cars once a day or once a week or whatever it may be?

A. No, sir; the main line cost is less, as a general proposition, than the branch line cost, as the branch line, as a general thing, runs on a way freight schedule.

Q. 86. Mr. Hillman, as a plain practical proposition, there can't be the slightest doubt in the mind of anyone that a branch line freight business or passenger business with the thin traffic that necessarily results from that character of road must be done at a greater expense than main line or through traffic: isn't that a fact?

A. There isn't any doubt that it is more expensive per ton mile or per passenger mile.

Q. 87. How much of the Norfolk & Western in West Virginia is main line track and how much branch line track?

A. I haven't those figures before me, sir. I don't know.

Q. 88. Mr. Hillman, for your information, I will state that for the year upon which your figures are based, the main line track for the Pocahontas division of the Norfolk & Western in West Virginia was 103.46 miles and the branch line track of the same division was 141.15 miles, making the branch line's mileage on this division 57.7
per cent of the entire mileage of the division. Now with
421 those figures before you, and considering the fact that the traffic on this division of the road is operated or conducted on so large a percentage of branch line track, are you not of the opinion that the cost of this traffic must largely exceed the estimates which you have made when you have based those estimates on only two elements of excess cost, viz: the two terminals and the shorter hauls?

Counsel for defendants object to this question because it is based upon figures that are not in the record, either in the pleadings or in the evidence.

A. No, sir; not necessarily, for the reason that I have made this computation for intrastate traffic. This branch line which you mention in West Virginia is used for both kinds of traffic—inter and intrastate. There are no figures at hand to show how much the interstate or intrastate predominates on either main or branch line; and therefore, until that was determined, we could not determine whether or not I had overestimated or underestimated the intrastate expenses.

Q. 89. Now, Mr. Hillman, has the statement you have just made any relevancy to the theory on which you have undertaken in Exhibit No. 5 to ascertain the intrastate cost because you have taken the general cost and then raised it to the intrastate basis on the presumption that all of your business was done at the same cost and none on branch lines? Now what has your intrastate business on branch lines to do with the proposition that we are now investigating?
422

A. It has this to do with it; that in your question you are asking me to assume in the first place that a large portion of the business of the Norfolk & Western is done on branch lines, which is undoubtedly true. How much does not appear, according to the record. You are then in your question asking me to assume the fact that this branch line business is intrastate or that the largest portion of the branch line business is intrastate, to which I am not at all ready to answer yes. The confusion exists, I think, in your confusing branch line business with intrastate business.

Q. 90. Well, I asked you to assume that 47 per cent of the intrastate tonnage is exchanged with branch lines on the Pocahontas division, and I now ask you whether or not, if that large percentage of the intrastate business is exchanged with branch lines, the excess branch line cost should not properly be reflected in your estimates of the cost of doing the intrastate freight business?

A. Yes, sir; it should be, provided, of course, that the percentage of interstate business expressed in ton miles will bear less percentage than this 47 per cent which you asked me to assume as to the intrastate tonnage on branch lines.

Q. 91. What is the character of interstate business on the Norfolk & Western arising on the Pocahontas division?

A. I know that a large proportion of it is coal.

Q. 92. And you know, also, the fact that all of that coal
423 has long hauls—all of the interstate?

A. Yes, sir; all of the interstate has long hauls on the Norfolk & Western system.

Q. 93. It has long hauls on this division, has it not?

A. A considerable proportion of it has; but fully half of it has not, going to tidewater, averaging about eleven miles on this division.

Q. 94. Then, as I understand it, you claim that even though practically one-half of the West Virginia freight business is done

over the branch lines of the Norfolk & Western road, that in spite of that fact you can ascertain the general cost of doing intrastate freight business without making any allowance for that half?

A. No, sir; I have never made that claim, either in my direct testimony or here. I have made the computation which I said I considered an approximate cost, which I believe I stated in my direct testimony ignored the way traffic as against the through traffic. The question of the absolute or accurate determination of that would necessitate the examination of the classes of tonnage which used the branch lines and which used the main lines, which I have not made.

Q. 95. In other words, your investigation of the cost of doing intrastate freight business in West Virginia has not gone far enough for you to predicate, with reasonable accuracy, as to what the cost of that business is?

A. I would hardly like to answer that question, using
424 "with reasonable accuracy." I would like to put it half way between what you call mathematical accuracy and reasonable accuracy. I would state, for this reason, that in the cost which I trebled, doubled or sextupled, I included the cost of doing all this high-cost business of which you speak, and therefore I have taken into account, six times over in some cases, all this branch line cost which you mention, three times over in others, and twice over in other cases. I have not segregated the branch line and main line cost and trebled, or doubled, or sextupled that, but I have taken the high cost, including branches and all, and including double terminals, and have multiplied that by two, three and six. I don't know whether I have overestimated or underestimated the cost in these cases. If you desire an opinion on it, I am willing to risk one.

Q. 96. Isn't that basing a guess upon a guess?

A. No; it is offsetting an unknown quantity which tends to one side of the account against an unknown quantity which you know tends to the other side, and therefore it is not an accumulation of error, one on top of the other, but it is a reduction of error. Whether the error on one side of the account would overbalance the error on the other side is a matter I don't know. That is the reason I made the statement between mathematical accuracy and reasonable accuracy; it was for just that reason.

Q. 97. Now, one large element which you attribute as a
425 basis for excess cost of doing intrastate business in West Virginia is the element of cost involved in the two terminals. Did you reflect on the fact that much of this business is done with three and four terminals?

A. Do you mean of the intrastate business?

Q. 98. Yes.

A. No, sir; I didn't make that computation, for the fact would militate against that, that the interstate business also has intermediate terminals; it has intermediate yards; it has branch handling at branch terminals, etc. Therefore, I allowed it to remain as it stood, two to one.

Q. 99. If you had followed out in my allusion the handling—I wasn't referring to the movement that occurs in the coal movement by reason of making up trains at Vivian yards, to which I have no doubt you refer; but I am referring to the fact that in the conduct of this branch line business, as you have observed from your examination, I doubt not, it will be consigned, say from Kenova to a point on a branch line, but will not be sent directly to that branch line, but will go to Bluefield to be from there distributed so as to be carried in a train that is going up to a branch line, and so with other movements: which makes me say that a substantial portion of this business is subject not only to two terminals, to which you allude, but to three terminal expenses and in some cases to four terminal expenses. Your familiarity with that division will verify the facts implied by my question.

426 Counsel for defendants object to counsel basing his question upon facts which nowhere appear in the record.

A. Yes, sir; that has been taken into consideration, for the reason which I have just spoken of a few minutes since, that the interstate is always subject to those changes when it goes on branches or comes off branches or is changed at a terminal station and carried forward in another train. I have made computations of that character, and I would say that both classes of freight will oftentimes run as high as eight handlings. For that reason I have allowed the two to one to stand, because the double handling or triple handling is not confined to intrastate business, but the interstate also has its double and triple handling.

Q. 100. Did you undertake to compare the cost of making up a carload of coal in a train of coal at the division point with the cost involved in transferring a carload of package freight at the terminals where a breaking-up of the freight has to be made in order to get it out on a little branch line train?

A. No, sir. The cost of handling merchandise that is less than carload freight is much greater in every way, of course, than handling carloads. It is at least twenty to one.

Q. 101. Well, in these handlings of interstate freight, does it involve the handling and transfer of less than carload stuff?

A. Certainly it does; and we must not lose sight of the
427 fact that all our less than carload freight is not intrastate; that a great deal of interstate freight is less than carload, and is of course, subject to the same number of handlings and the same changes in handlings and various handlings, as the intrastate, but not quite to the same extent.

Q. 102. Can you go further than that? Can't you say that the general character of intrastate freight is local or less than carloads, as compared to the same volume of interstate freight?

A. I would not do so without an examination of the records of the company. As I stated a few minutes since, there are no heavy distributing points for intrastate freight in West Virginia.

Q. 103. But isn't the amount of intrastate freight in West Vir-

ginia comparatively small, and have you any reason to believe that the ratio of less than carload freight as compared to carload freight is any different, so far as you have observed, from the general experience of such business in railroad operations?

A. Yes, sir; I have reason to believe so, and the reason is as I have just stated, the lack of distributing points in the state. As regards the actual amount and the relative percentages of less than carloads of interstate and intrastate, I have no advice and could not judge, beyond what I have stated.

Q. 104. I refer now to your Exhibit 5, and before making any further inquiry on the subject, I will ask you the theory on which it is made up.

428 A. It is made up on the basis that every terminal expense occurs twice on intrastate to once on interstate; further, that the average haul of this intrastate is only one-third that of interstate freight. These are the bases of the adjustment to intrastate made by me on Exhibit 5.

Q. 105. Then, I understand that you have taken the figures which were the result of your divisions between the freight and passenger for the two adjusted months and set the sum of those figures to all the freight cost of the Norfolk & Western for the respective months, and now for the purpose of getting the intrastate freight costs you have taken each one of these items of cost and raised it to an imaginary figure because you say that if that freight had been carried at intrastate cost the figures would have been raised to that sum. Is that a fact?

A. No, sir; they would not have been raised to that sum, as I stated in my direct examination, for the reason that included in these figures which I have raised is already this excess cost of doing intrastate business whatever it may be. I should say that this is what might be termed the maximum cost on this basis of doing the intrastate business, or the tonnage raised to its adjusted maximum.

Q. 106. Well, this is the first time we have heard of that being a maximum cost, and I have assumed heretofore that you gave these imaginary figures as being the true cost and not a maximum cost.

429 Do I understand now that you do not rely on these figures as being accurate but that they do afford evidence of a boundary line of cost?

A. On page 48 of my testimony in chief I said, "We have, however, neglected the small quantify of intrastate which had already gone in at its higher cost to make up the total of all freight, and in so far as we have included this small percentage of intrastate freight we have been overcharging intrastate in our summary of expenses; but as this amounted to about 5 per cent. of the total, it is not a serious matter." I would further say that I have already expressed myself upon this matter of maximum cost and as to the accuracy of this method of division. I don't consider it accurate, but I consider it strongly indicative of the cost.

Q. 107. I notice that in this Exhibit 5, having in your first column set down the cost of various items accruing on the Pocahontas di-

vision under the head of the several accounts mentioned, you then proceed to add in round numbers in some cases, say, 25 per cent., in other cases 50 per cent., in other items you double, in other items you multiply by six, and set such resulting figures over to the column of your adjustment of the business had it all been done at the cost at which intrastate business is done. Will you now state whether all of these additions are attributable to what you call the excess cost involved in double terminals and the shorter haul?

A. Yes, sir; they are.

Q. 108. I will ask you this: in so adjusting these costs
430 was it not necessary to indulge in a very large element of speculation or conjecture as to how much should be added to what you claimed to be the real cost that you had ascertained in order to raise these costs up to an intrastate basis of cost?

A. No, sir; outside of the fact of not determining the amount carried on through and local trains. The other matters had been taken care of in these computations.

Q. 108. I will now ask you what excess cost you added to the wages of road enginemen, Account No. 80?

A. Account No. 80, road enginemen, is a movement expense and is considered one to one, ten to ten, in movement between inter and intra.

Q. 109. But haven't you testified that these road enginemen made only one-third of the mileage—

A. No, sir; I haven't.

Q. 110. The mileage on the intrastate is one-third of the mileage of the other freight?

A. Yes, sir.

Q. 111. And these enginemen only made, as far as intrastate is concerned—they made only one-third of the mileage?

A. No, sir; they made the miles. They don't carry the freight near as far; but in both characters of freight the expense accrues per ton mile carried. They do only have to carry the freight one-third the distance.

Q. 112. But those enginemen, if they were paid, as you
431 known enginemen are paid, 100 miles for carrying it 40 miles, does not the road suffer if you only fix the wages for the 40 miles of haul, on an intrastate haul, when on an interstate movement they carry it the full 100 miles and the road gets the benefit of that revenue?

A. That comes to the same proposition that we had before; that is, on these local trains there is interstate freight and intrastate freight. These local trains push off the freight wherever it is necessary, pick it up wherever it is necessary. They are doing this for both classes of freight. Because the haul of intrastate freight is only 40 miles, it does not mean by any means that the engineer is getting the 100 mile pay for the 40 mile haul of any class of freight.

Q. 113. I understand that that does not necessarily follow, Mr. Hillman. But as a matter of fact, do you not know that on a branch line the enginemen do get a 100 mile pay for a 25, 40, 60, or 70

mile haul; and that that more certainly occurs in regard to short hauls than on the main line business, and if you are going to raise the cost of doing your business from the actual cost of intrastate business, should not you recognize the fact that the expense of engine-men and trainmen *are* greater on that class of business than it is on the average run of business?

A. No, sir; you are assuming there again as a fact that all short haul freight and all other branch line business is due to
432 intrastate and consists of intrastate. I have stated that I did not take into consideration, nor have I taken into consideration here, the extra cost of doing the way business as against the through business, nor do I know, nor had I means of knowing, the amount of intrastate business and interstate business which is handled on these short runs. There is no engineman, however, that gets 100 miles pay for 25 miles run. He would be doubled up on his run. He would be taken in and out and make his double run.

Q. 114. I will now read to you from the rules and regulations of the Norfolk & Western Railroad in regard to the payment of engine-men: "For short runs not provided for of a distance less than 50 miles, 100 miles will be allowed either straightaway or turnaround. For a distance of 50 miles or over, 100 miles will be allowed at mileage rates, but should a short run of a distance of over 50 miles be doubled and the round trip commenced within nine hours and five minutes of the time of reporting for duty at the starting point for the going trip a full round trip will be paid for at mileage rates, and over time for time in excess of eleven miles per hour for freight service and twenty-five miles for passenger service, plus the thirty-one minutes before overtime began."

Counsel for defendants object to counsel for the railroad company reading into the record anything as evidence when he has not qualified as a witness, and here moves to expunge the same from the record.

Q. 115. Now, assuming that to be the regulation of the
433 Norfolk & Western, are you not mistaken in saying that the enginemen and trainment do not get the full pay for these short runs?

A. I don't say that they do not get the full pay for short runs. I do say, however, that no railroad would run its business on a basis of a 25 or even a 40 mile run at full 100 mile pay. It says in these rules, "unless otherwise provided for". You may be sure that they are provided for. There are exceptional cases, however.

Q. 116. Doesn't the fact that you have figures the interstate haul at three times as long as the intrastate go to prove the additional fact that whatever excess cost the railroad company may be put to in connection with their enginemen on short hauls ought to be reflected in the cost of doing intrastate business?

A. No, sir, it does not. If that freight were consolidated in one point where it would necessitate a 40 mile haul, where your enginemen could run 40 miles, and it was so arranged by the company that they should receive 100 miles pay, and I mean when I say

arranged, that by necessity the company must pay the enginemen, that they could not get out of it, then it would be a charge against intrastate freight to that extent. But the intrastate freight does not run in consolidated blocks. It is picked up and set off all along the line, and the engineman can make his hundred miles, be paid for his hundred miles, and still have an average haul of only 40
434 miles on intrastate freight, on account of pick-ups and set-offs. He may also have several short hauls on intrastate freight.

NOTE.—Counsel for the railroad company state that they will furnish to the Attorney General a copy of the rules and regulations for rates paid, and any selections therefrom may be referred to as a part of the record of deemed expedient by either of the parties.

NOTE.—But counsel for the defendants do not consent that any part of the book of rules or regulations shall be made a part of the record without witnesses testifying to the same.

435 C. W. HILLMAN, the witness who was on the stand at the time adjournment was taken on yesterday, was at this time recalled for further examination by Mr. Cocke, and testified as follows:

By Mr. COCKE:

Q. 117. I think you testified in the proceedings before the Inter State Commissioner, commonly known as the "Lake Rate Case?"

A. Yes, sir; I did.

Q. 118. In that case you attempted to make an analysis of the cost to the Norfolk & Western Railway Company, of hauling all coal, and what is known as lake coal?

A. Yes, sir; I did.

Q. 119. What was the general character of the trains in which coal is hauled on the Norfolk & Western, as shown by your testimony in that case—I mean especially with reference to the amount of tonnage on the trains?

A. I didn't investigate especially the tonnage on the trains. I did, however, make an investigation of the amount of coal which was handled on way trains, that is, I mean by that, the train which carried the "peddling car" of the way train; I don't mean the pick up and set off train, because the wages for picking up and setting off train, are on the same basis per hundred miles as the through trains, which depends entirely upon the engine for the engineers, the class of engine used; but the way train, that is the train carrying the "peddling car", has the extra addition to the wage schedule, and on that train, there was very little coal carried.

436 Q. 120. The great majority of the trains that carried coal, according to your recollection and your investigation, were comparatively solid coal trains?

A. They were. Well, I didn't make that investigation. That was made by the Inter-State Commerce examiners under Mr. Lyon, and those records are on file, but I don't recall the percentage of coal. He took 15 trains and ran them up as to the coal percentage.

Q. 121. Well, was your investigation sufficient for you to testify that those trains carrying coal averaged some 1,700 or 1,800 tons per train?

(Counsel for the plaintiff objected to the foregoing question because it is irrelevant.)

A. I have a recollection, from what source I don't know—I could not say whether it was from personal investigation of the testimony, that these Norfolk & Western trains carried a very heavy percentage—a very heavy tonnage—I expect somewhere near what you have mentioned. I should say, however, that that is my recollection; concerning the through line trains, I am not informed concerning those trains on their shorter runs reaching the main line from the branches.

Q. 122. What is the common average lading of local merchandise trains or others, carrying the general run of intra-state freight?

A. There is no such train.

Q. 123. Of course I understand that that train will carry interstate as well as intra-state freight, but I am referring to the character of trains that stop at each of the local stations, for the purpose of making local deliveries, commonly known as the way train—
437 local freight.

A. Before answering that question, I will have to get you to particularize it. Do you mean the peddling train, the one that carries the peddling car, or do you mean the combination of the way train, which carries the peddling car, and what they call the pick up and set out freights, as against through freights?

Q. 124. I mean the pick up and set out?

A. Pick up and set outs would run 75% on an average of the lading of through trains.

Q. 125. How about the peddling train, that stops at the local stations for the purpose of receiving and delivering local freight from station to station?

A. You mean by that less than car lots from station to station?

Q. 126. Yes, sir?

A. On those trains they only would carry—would carry only on an average of 40%. I should think, as a general proposition, 40% of the tonnage of the through trains, that is terminal to terminal trains.

Mr. CONLEY: What did you mean by lading of through trains?

The WITNESS: I mean by that, terminal to terminal trains.

Mr. COCKE:

Q. 127. Those local trains, whether consisting of pick ups and set offs or of peddling local freight, are not double-headers, are they?

A. That I could not say.

Q. 128. From your experience, you would not think it
438 possible for them to be double headers?

A. I should say that from the experience, I should deduce that the way freights—I mean by that the one that carries the ped-

dling car—would not necessarily be a double header. I am unable to say concerning the others.

Q. 129. What did you ascertain to be the cost of hauling of coal on the Pocahontas Division, both in the aggregate amount—both in the amount in dollars and cents, and the rate per ton per mile?

A. That I cannot recall.

Q. 130. By reference to the exhibit which you filed in the late coal case, does it not appear that you assigned as the cost for hauling coal—of hauling all coal on that division, the sum of 173,-358.31?

(Counsel for the defendants object to the foregoing question because it does not show what the testimony relates to, and because it was testimony supposed to be in another case and relating to interstate freight.)

A. 131. I will now ask you whether or not the amount of expense which you ascertained for the hauling of coal to which you have just alluded is not for the month of May, 1910, the sum of to which you have just now alluded, is not for May, 1910, the same month concerning which you are testifying in this proceeding?

A. The amount is \$173,358.31.

Q. 132. Now, what would the ton mile that you ascertained was coal that was carried for that amount of money during the month of May, 1910.

439 (Counsel for defendants objects to the foregoing question for the reason that it relates to testimony in another case, and relates only to coal shipments, and does not relate to the general freight business of the company.)

A. That is 53,719,376.00 were the ton miles of revenue, upon which the company collected revenue during the month of May, 1910.

Q. 132. Now, will you state what was the rate per ton per mile—I mean the expense per ton per mile, based on the expense and the revenue ton miles carried, as you have just stated?

(Counsel for the defendants objects to the foregoing question for the reason that it relates to testimony in another case, and relates only to coal shipments, and does not relate to the general freight business of the company.)

A. If we consider the ton miles upon which revenue was collected as the amount of ton miles upon which the expense accrued, the expense would be 3.22 mills per ton per mile.

Q. 133. I will ask you to turn now to your Exhibit No. 7. According to that exhibit, I understand that you estimate that the amount that the Norfolk & Western Railway Company expends, 71.95 per cent of the revenue it derives from its intra-state freight and passenger business, in paying the operating expenses of those two classes of its business, including taxes?

A. Yes, sir.

Q. 134. You have further testified that the Norfolk & Western Railway Company out of its revenue is at other charges in the
440 — of interest, rents, hire of equipment, interest on funded debts, trust obligations and other items shown on page 7 of the Annual Report of the railroad company for June 30, 1910, and that you think certain for the revenues from these two classes of business to pay their proportion of what the railroad company was compelled to pay for these two items, that such proportion would amount to an additional charge amounting to a percentage of 23.013 per cent of those expenses, in order that these classes should pay their pro-rata proportion of the fixed charges of the railroad. Am I correct in reciting your conclusions?

A. In answer to your question, I will say that I have added directly to the operating percentage which I have found, the percentage which is shown by the annual report to have accrued on the annual report, necessarily to have accrued on each dollar of earnings in order to meet the income charges, which sum amounts to 23.013 per cent, and which, when added to 71.9553 per cent of operation shown upon my Exhibit No. 7, makes the sum of 94.9683 per cent.

Q. 135. How much surplus of expenses would be then allowed under your computation for the other expenses of the railroad, not enumerated by you or provided for in your calculation?

A. Upon the basis which I have just named, there would be left 5.0327 per cent as a surplus. As regards other expenses of the railroad company they being covered by their operating expenses and their income account, I, of course, have provided for nothing else after going that far.

441 Q. 136. As a matter of fact, any well conducted railroad is at other expense, in addition to what you have provided for, is it not?

A. They expend other amounts of money for improvements, betterments of their line—I mean by line, of course all the railroad facilities, not directly the track.

Q. 137. Do not, frankly speaking, don't you think that you have, in that calculation—that the calculation which you have furnished, shows at best, a very meagre allowance for other expenses to which the railroad is put, and which have to be paid and reckoned with, when you consider the uncertainty and vicissitudes surrounding the operation of the railroad, and the extraordinary expenses which come to it in the recurring ways?

A. You ask me now to go into a discussion of general railroad financing, and I don't know how far I really ought to go into that. There are certain expenses which you have mentioned, which come in line of the improvements which it is necessary for you to make, but every dollar of those improvements add to the value of your property necessarily, and are capital expense. If the stockholders choose to reinvest their money in their road, they are surely entitled to do so, and I consider it good, conservative business that they should reinvest their money, and it is a reinvestment of their money, a reinvestment of their surplus, but as to whether or not there should

be an allowance made for that in making rates or not, is a question which is rather too broad to go into at present. As to the
442 second point of your question, as to whether a surplus should be set aside to meet operating contingencies such as expense, I may refer here to one matter which would illustrate what I mean, which was the flood in the Gulf of Mexico, whereby an immense amount of damage was done which had to be replaced, and which, of course, would necessarily become an operating expense. If such conditions could be shown to be on any road such as the Norfolk & Western, there is no doubt that the expenses as shown should be thrown over a number of years and thereafter added to the operating expenses, or, in other words, the operating expenses increased to meet such contingencies, provided they could be shown to occur at certain intervals, extending over a series of years, but the data would have to be on hand to show that.

Q. 138. I will ask you this: You are reasonably familiar with the location and business of the Norfolk & Western Railroad, and you know the fact that a large portion of the road is operated through mountainous territory, and that this is especially true with regard to that certain section of the road going through the State of West Virginia. Do you not know it to be a fact, that a road of that character is subject to sudden floods, which destroy certain portions of the track, and should not a surplus be accumulated for repairing those disasters?

A. Those disasters are entirely chargeable to the operating expenses. It would depend absolutely upon what year you were using; that is, the question would occur: "Did in this year which we are
443 examining, any such contingency such as we are examining, occur any more than in the ordinary year," I say you would have to extend it over a series of years in order to determine that fact.

Q. 139. Well, considering the facts which you have just recited, do you not consider that the 5% surplus the expenses which your estimate apparently allows for, a very meagre allowance?

A. That is, I say I could not tell without knowing or entering into an investigation of whether in this year these contingencies occurred, against which we were to provide. If none of them occurred this year, and it was an absolutely normal operating year, without any of those contingencies, and it could be shown that it did occur in other years, and were, of course, liable to occur again, there should be an allowance made for them, I don't know how much.

Q. 140. Then the question in your mind is, that if the year 1910 was abnormal in its payments for extraordinary expenses such as you have alluded to, then the allowance of 5% might be sufficient, but that if it was not representative, it would not be sufficient?

A. No, sir, if the year should be abnormal, I would say we would not allow anything for the year. The idea of the allowance is to make up for such deficiencies or for such accidental occurrences, and that in a year where those occurrences happen, you would expect to draw on the previous years where you had laid aside a surplus under

those circumstances; therefore, it goes to an average of a series of years.

444 Q. 141. I notice that, in your allowances for expenses, you take no account that the railroad has to pay surplus in discount and commission on securities sold. Do you not think that is a proper subject for consideration?

A. Absolutely, no, sir; no, sir.

Q. 142. You don't?

A. No, sir. The discount or securities should be met from the pockets of the stockholders and not from the rates.

Q. 143. In that respect you differ from President Hadley, and his commission who have filed a report concerning railroad securities?

A. I don't recall the quotation there, but I don't think that I do differ from him in that.

Q. 144. Now, it happens that in the report that you examined, the actual expense for the year 1910, that the company was put to in disposing of its securities, was the sum of \$41,878.08. Now, I understand that, according to your theory of accounting, that no provision should be made in the operation of the company for the payment of that item of expense, so far as rates are concerned?

A. None whatever, and I am led to — conclusion by experience in several roads. The most extreme case that I know of, where out of six million dollars, thirty-three hundred dollars was charged to discount on bonds, Florida East Coast, second mortgage bonds.

Q. 145. You don't mention the figures which you have just given, as having any relation whatsoever to any item of charge which the Norfolk & Western has to pay bankers in the regular course
445 of business in marketing their securities?

A. The difference is only in the amount which they have to pay, not in principle.

Q. 146. The difference in the amount would seem to be the difference between one per cent and fifty per cent, would it not?

A. The difference of the amount is—I don't know what—how many bonds they sold, but I accept your statement that it was one per cent commission paid, and that the relation was as you have stated. I should say here, in order not to appear radical, that I do believe a reasonable discount on bonds would be allowable and charged to the capitalization of a railroad at a reasonable discount.

Q. 147. Do the rules of the Inter State Commerce Commission permit the amount which you have just suggested?

A. They do not.

Q. 148. Well, however valuable may be the suggestion which you have made, it is one that the railroad company cannot avail itself of?

A. They are allowed to carry it in an accounting and spread it over the years of the life of the bond, and to charge that up to—I reckon profit and loss, or what else.

Q. 149. Some old thing?

(Counsel requested that the foregoing question be eliminated from the record, which is accordingly done.)

Q. 150. Now, it is true, as shown by your analysis of the annual statement of the Norfolk & Western Railroad for the year ending June 30, 1910, that that company, out of its earnings, was unable to pay to its common stockholders, a dividend greater than 5%, which was the rate at which the dividend was paid?

A. Yes, sir.

446 Q. 151. Suppose that the stockholders had received 6% dividend. What would have become of the surplus which you state exists from these two classes of business?

A. If there had been paid to the common stockholders 6% instead of 5%, it would have added 1.877 per cent to the 23.013 per cent, which I have mentioned, making the total payments 24.89 per cent.

Q. 152. In other words, it would then reduce your surplus to about 3.15 per cent of expenses?

A. Yes, sir.

Q. 153. Now, Mr. Hillman, you have examined all of the annual reports of the Norfolk & Western Railroad Company, and know the fact that the year 1910 was the most prosperous year that the road has had?

A. That I could not say. I have not looked back over the reports, nor am I sufficiently familiar with them to say so.

Q. 154. If it should appear that the year ending June 30, 1910, in which fiscal year the two months are embraced which you have examined as the basis of your accounting, was the most prosperous year that the Norfolk & Western Railroad Company has had, do you not believe that an accounting based on that year is hardly fair as a basis for the calculations which you reach in your testimony?

A. The conclusions which I reach in my testimony, are conclusions of fact, based entirely on the year 1910; as to whether that should be the basis for the decision of the ultimate question
447 for which this investigation is undertaken, that belongs to an entirely different body and it does not belong to me, and I don't care to go into that question.

Q. 155. Well, as an accountant acquainted with the ups and down of a railroad, do you believe that any system of accounting based upon a year's work, especially if it should appear that the year selected was the most prosperous year, could give the proper information upon which to base a judgment as to what is fair and just and right with reference to railroad rates?

A. That is a point that I would not go into. That belongs, as I say, to the determining authority which has the case in hand.

Redirect examination.

By Mr. CONLEY:

Q. 156. Mr. Hillman, on cross examination you were questioned to a considerable extent as to whether or not the months of November, 1909 and May, 1910, were fairly typical of the business for the entire year, and whether or not the results based upon those two months, would be approximately correct for the entire year. What have you to say as to that?

A. Yes, sir; I think they would be.

Q. 157. Will you please give some data tending to show this result?

A. Take for instance the passenger train miles for the year on the Pocahontas Division. There were 443,058 passenger train
448 miles; one-sixth of this would give a total for the two months of 73,842; on the Kenova Division in West Virginia there were for the year 182,741 passenger train miles, one-sixth of this representing the two months would be 30,456, making the total in West Virginia on these two divisions of 104,298. The actual figures were as follows: Pocahontas Division, November 34,672, May 41,332; Kenova Division, November 14,940, May 15,681, making a total of actual miles run of 106,645, as against the two months average of 104,218, a difference of 2.2% only. The passenger earnings for the same period and for the same divisions show a total average for the two months of \$123,003.76; the actual earnings for the two months were \$121,640.05, a difference of about 1%. The passenger car miles for the two months averaged 600,758; the total actual passenger car miles for the two months was 601,015; the variation in the earnings and the car miles between the actual and the average being five-tenths of one per cent, the variation in the earnings between the annual and the monthly averages being about one per cent. Since the passenger earnings are less, and the car miles—engine miles—are more, it would indicate that the expenses which we have taken for passenger in these two months, are very slightly above the passenger expenses for the year but not enough to create any serious discrepancy. All of the above figures are taken from the records of the company and are not figures of my own. These records show the figures monthly and show a yearly total; in calculating the one-sixth, I have simply divided their yearly total as
449 shown by the records by six in order to obtain the average for two months. The other figures are the actual figures which occurred during each of the months in question; therefore, these figures are the actual figures from the records of the company.

Q. 158. By reference to your testimony in chief on the fourth day of March, 1912, you said you had left out certain mileage on the Shenandoah and the Radford Divisions, aggregating about 40 miles. Can you give the percentage and the figures which would show how much intra-state business was not taken into account by reason of leaving out the mileage above referred to?

A. The intra-state passenger miles for West Virginia during the two months in question, May, 1910, and November, 1909, were 2,570,632 passenger miles; on the Shenandoah Division there were 30,170 intra-state passenger miles; on the Radford Division there were 43,450 passenger miles, a total of intra-state passenger miles on those two divisions that was left out of our computation of 73,620 passenger miles, with a percentage of 2.87% on the total passenger mileage. In other words, we have computed the cost for 97.13% of the total passenger mileage. It can readily be seen that the 2.87% would not materially change the result, even when the conditions upon which it had been hauled would have been adverse to the

state's contention of cost. The above figures in this last answer can be checked up from "Exhibit C. W. H. 4-A."

Q. 159. Mr. Hillman, on page—at the top of page 16 of your deposition in chief, in speaking of primary account No. 5, you used the following: "It is divided upon the same basis as the preceding account No. 4, for the reason that other track material is coincident with the rails." Do you wish to make any explanation of that statement or add anything thereto?

A. Yes, sir, I don't wish that to stand as co-incident with the rail. It is *to* definite. I want to say it is probably co-incident with the rail, because we know that the rail, the switches and other material included as track material, does not exactly follow the rail, but it is subject, probably, to the same conditions as to rust and wear, and I want to be careful on that point for several reasons. In other words, I am trying to get statistics on these points to see what variations there would be, if any, in the percentages and factors which I have taken from the data which I have to date. All data which I have used here is subject to corrections as fast as I can get the figures, otherwise, I am no good.

(Counsel for defendants without waiving the exceptions to the question asked by counsel for the railroad company on cross-examination, so far as they relate to other cases, now proceeds to examine the witness thereon.)

Q. 160. Mr. Hillman, you were asked on cross examination concerning the different methods shown in a brief filed before the Inter State Commerce Commission, one of which was called the Boileau case. Do you know who prepared that brief, or the portion of it relating to the different methods of division between the freight and passengers as shown in it?

A. Mr. J. P. Muller who is an accountant in that case, is an ex-commissioner—I mean by that an ex-accountant of the Inter
451 State Commerce Commission.

Q. 161. With reference to the methods set up in the brief by Mr. John G. Drew, Comptroller of the Great Northern road, and Mr. Frank Nay, of the Chicago, Rock Island and Pacific Railroad, do you know if these methods are considered by them as accurate?

A. No, sir; they are not. They are considered for comparative purposes only—comparative operating purposes—to check operating efficiency.

Q. 162. You have been asked concerning extra cost on branch line trains on the Pocahontas Division. Are these branch line trains used principally for inter-state business or intra-state business?

A. That I don't know. I have no data on that subject whatever as to whether they are or not.

Q. 163. Is it not a fact that a large number of the branches of the Pocahontas Division are branches up to coal mines, and that the coal business of the Norfolk & Western is to a very large extent the business of those branch lines?

(Counsel for the railroad company objects to the foregoing ques-

tion, for the reason that the witness has already stated that he does not know the character of the business on the branch lines, and also objects to the suggestions contained in this question.)

A. Yes, sir, that is a fact; most of them or a large portion of them are run up to coal mines, and the coal business is to a very
452 large extent, considerably above 90% interstate.

Q. 164. Could you say whether or not the short lines which it is claimed extra pay accrues from haulage on account of their shortness, occurs on branch line runs or on the main line run?

A. That could only be determined by an investigation of the pay rolls of the company.

Q. 165. Have you made such an investigation?

A. I have not; no, sir.

Q. 166. Do you know whether or not they occur on the so-called way trains of light tonnage or on the trains carrying the heavy tonnage?

A. No, sir, I could not say from direct knowledge, but I should say that way trains—the way train runs are arranged by schedule, and that they would be arranged so that an extremely short haul would not occur on the way trains; it would occur on the through trains and the pick-ups.

Q. 167. You were questioned at considerable length on cross examination about the multiples of 2, 3 & 6 as used by you. Is it not a fact that any figures to which you apply that multiple in order to determine the inter-state cost per ton per mile with all of the cost, were included in the original figures which you did so apply?

A. Yes, sir, the entire cost, whether it was on short runs or long runs, was included in the total figures which I multiplied by two, three or six.

453 Q. 168. Will you explain why you used these multiples?

A. I used the multiple two, to provide for the extra terminals, intra-state; I used the multiple three, to provide for the length of the average haul, in order to spread my terminal charges over the length of the haul.

Q. 169. I believe you stated on cross examination, that you used 20% as the approximate cost of handling intra-state freight in its application to the Pocahontas Division. Will you state whether this division is the most expensive division on the Norfolk & Western Railroad?

A. In the State of West Virginia, yes, sir, it is the most expensive division. The 20% was derived from the operations on that division, and then applied to the entire business in the State of West Virginia, both on the Pocahontas and the Kenova Division.

And further this deponent saith not.

(By consent of counsel the signature of the witness C. W. Hillman, to the foregoing deposition is hereby waived.)